

Report 2008: 2  
Department of Criminology Report Series  
**Political Corruption and Campaign Financing**



**Stockholm  
University**



# **Political Corruption and Campaign Financing**

Nubia Evertsson

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ISSN 1400-853X  
ISBN 978-91-7155-781-0  
(This version replaces ISBN 978-91-7155-727-8 after corrections)

Printed by US-AB Stockholm University, Stockholm

First published 2008

*Each State Party shall also consider taking appropriate legislative and administrative measures, consistent with the objectives of this Convention and in accordance with the fundamental principles of its domestic law, to enhance transparency in the funding of candidates for elected public office and, where applicable the funding of political parties.*

Article 7 (3) of the United Nation's Convention against Corruption



## TABLE OF CONTENTS

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<i>List of Tables</i> .....	ii
<i>List of Boxes</i> .....	ii
<i>List of Figures</i> .....	ii
<i>List of Appendixes</i> .....	ii
<i>Abstract</i> .....	iii
<i>Acknowledgments</i> .....	iv
<i>Note about the author</i> .....	v
Introduction.....	1
1. Definitions .....	7
1.1. Defining corruption .....	7
1.2. Defining political corruption .....	9
1.2.1. Forms of political corruption .....	14
1.2.2. Campaign financing as a form of political corruption .....	27
2. Reciprocities and campaign financing.....	35
2.1. The social function of gift giving .....	36
2.2. The communicative meaning of gift giving.....	41
2.3. Campaign financing as a political gift.....	44
3. Beyond campaign contributions.....	50
3.1. The method: cross-country analysis .....	50
3.2. The variables included in the model .....	54
3.2.1. The dependent variable: proxies of political corruption.....	55
3.2.2. The independent variables: campaign financing and the political context.....	66
3.3. The results .....	72
4. Conclusions .....	78
<i>References</i> .....	83
<i>Appendixes</i> .....	95

---

## LIST OF TABLES

---

Table 1. Classification of political corruption in terms of types of wrongdoing according to Caiden .....	18
Table 2. Types of wrongdoing that should not be classified as political corruption.....	19
Table 3. Corruption practices penalized in international legal instruments .....	21
Table 4. Comparison of gifts, electoral campaign financing and bribes.....	28
Table 5. Bans on sources of donations to political parties in 207 countries.....	31
Table 6. Some financial provisions applicable during elections in 108 countries .....	32
Table 7. Campaign financing by industries in the USA elections of 2004 and 2006 .....	33
Table 8. Concepts measured in the Graft index and sources of information .....	60
Table 9. Concepts measured in the CPI index and sources of information.....	64
Table 10. Basis for classifying countries' electoral financing.....	68
Table 11. Variables included in the statistical analysis and their respective sources.....	71
Table 12. Regression results: Electoral financing and political corruption.....	73

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## LIST OF BOXES

---

Box 1. What a legislator can receive from a lobbyist in the USA.....	30
Box 2. Questions on the origin of electoral financing.....	68
Box 3. Questions on regulatory provisions relating to electoral financing.....	69

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## LIST OF FIGURES

---

Figure 1. The sequence of giving and receiving campaign contributions .....	47
---	----

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## LIST OF APPENDIXES

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Appendix 1. Gifts regulation for lobbyists in the US .....	96
Appendix 2. Campaign contributions by top donors in the USA elections of 2004 and 2006.....	100
Appendix 3. List of countries included in the final sample .....	101

## ABSTRACT

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Although political leaders, donors and some scholars would argue that there is nothing illegal behind the idea of giving and receiving campaign contributions, this research attempts to demonstrate the contrary. Here, I claim that small and large contributions constitute representations of political corruption because they are given for specific purposes either ideological or personal. Since the relationship between campaign financing and political corruption has not been studied worldwide, in this thesis I conduct a cross-country analysis of 83 countries and find that there is less political corruption: 1) in countries where elections are not funded with public resources; 2) in countries where the impact of legal campaign financing on public policy outcomes is lower; 3) in countries where regulations impose ceilings on election expenses and on the amount of money that parties/candidates can raise in each election; and 4) in countries where regulations make the public disclosure of campaign expenditures compulsory.

## ACKNOWLEDGMENTS

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In a discussion with Mr Malcolm Deas, my tutor at St Antony's College in Oxford, I started to develop the idea of studying the relationship between campaign financing and political corruption. Malcolm was not only an enthusiastic discussant but also an inspiring tutor. I would like to express my deepest gratitude to him.

I would also like to convey my thanks to Professor Janne Flyghed for his helpful ideas and suggestions. He has been a supportive supervisor here at Stockholm University. My acknowledgments to the participants of the research seminars at the Department of Criminology and the Latin American Centre at Stockholm University and the Department of Politics at Gothenburg University. Special thanks to Inge Amundsen, Maria Luisa Bartolomei, Lars Korsell, Staffan Löfving, Thor Norström, and Joakim Thelander for their valuable comments during these seminars. Thanks also to Hans von Hoffer and Henrik Tham for their written comments. I would also like to express my gratitude to Jan-Olov Persson from the Statistical Research Group at the Department of Mathematics, Stockholm University, for his assistance with the regression model and David Shannon for assisting with the English edition of this manuscript.

I want to acknowledge the generosity of funders during these first years of research at Stockholm University: the Anna Ahlströn and Ellen Terserus Foundation, the Kinanders and Söderbergs Foundations, the Hyckerströmska Foundation, the Helge Ax:son Johnson Foundation, and the Royal Swedish Academy of Sciences. The Swedish International Development Cooperation Agency (SIDA) funded the final part of this thesis and also the second stage of my research work (forthcoming).

My gratitude goes to my mother for her devoted support during the time I have spent working with this topic in Colombia, the USA, England and Sweden. Finally, my sincere recognition is to my husband, Jakob Evertsson, who has been a critical reader. His love and determination have provided me with encouragement to continue developing my research work.

## NOTE ABOUT THE AUTHOR

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## INTRODUCTION

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In recent decades political corruption has been a topic of study in a number of disciplines. One of the emerging areas of interest in this field is campaign financing. Scholars have focused on studying campaign financing as part of both the electoral process and party development; however, the subsidiary benefits accruing to private donors, organized business and even illegal organizations once the politicians have come into office have rarely been considered. As an increasing number of scandals have raised suspicions about elections in different nations, more attention has been paid to this issue.

During elections, substantial monetary and non-monetary resources are mobilized for the funding of political campaigns. By and large, campaign financing is considered non-interested money. Hidden interests do, however, attempt to influence political settings with their contributions. In this regard, Nassmacher (2003, p. 11) has argued that when external money flows into the political system, it usually tries to influence the decisions of political parties and also their policy-making capacities. Moreover, it has further been claimed that when campaign financing is large enough, it can penetrate governments' decision-making processes. So elected public officials bring their power and influence to bear to compensate their financial supporters (Rose-Ackerman, 1999, p. 93). Job appointments, favourable legislation and regulations, contract awards, and different kinds of compensation are all delivered in return for the financial support provided (Key, 1963, p. 382).

Therefore, what creates suspicion about campaign financing is not only its pervasive hidden intentions, but also the subsequent exchange of favours or reciprocities with elected public officials (Broke, 2007, p. 605). In a sense, electoral campaign financing creates asymmetric relationships of dependence, where one party feels obliged to reciprocate (Gouldner, 1960, p. 66); and as such, it can be assumed that campaign financing can turn into an illegal activity when the contributions are given with hidden intentions. Friedrichs (2004, p. 134) has argued that the exchange of these types of favours is nothing more than a 'legalized bribe' or an illegal alternative method of eliciting a benevolent response from a power holder.

This research seeks to analyze the problematic relationship between campaign financing and political corruption. The aim is to determine whether or not campaign financing fosters political corruption. Two specific questions will be explored:

1. Do legal financial contributions to electoral campaigns constitute an alternative method of bribery?
2. Is legal financial campaign financing related to political corruption?

This research emphasises questions of transparency rather than issues concerning the design of democratic institutions such as presidential and parliamentary systems, electoral rules and district sizes, or federalism and bicameralism. I am also less concerned with the impact of illegal campaign financing from drug cartels, paramilitary groups and informal businesses. While I am aware of the importance of this money in a political context, the analysis of the relationship between politicians and illicit organizations is deserving of special treatment and lies beyond the scope of the research presented here.

### ***The research process***

The research will be developed in two stages. In the first stage, I present a theoretical review of the problem at issue and a cross-country analysis which I use to study the relationship between electoral campaign financing and political corruption worldwide. In the second stage, a case study is presented which explores the reasons for giving this particular type of financial support during electoral periods and how this process operates. The reasons for dividing the research into two stages are in part practical, and relate to the requirements for the fulfilment of a Licentiate degree. It is also logical, however, to divide the research into a theoretical level and an empirical stage.

### ***A multidisciplinary approach***

This thesis is presented in the field of criminology; however, this does not restrict my interest in studying the complex problem of campaign financing on the basis of a multidisciplinary approach. Here my interest is in studying campaign financing as one of the various forms taken by the crime of political corruption. This means that it is not my

intention to provide evidence to validate or refute a particular criminological theory. Instead I am interested in opening up the debate about the criminalization of this practice, which in many countries is regulated but not considered illegal - despite its hidden consequences.

In criminology, the study of political corruption has focused on discussing whether political corruption is related to political white-collar crime or whether it is instead more closely associated with organized forms of crime. This problem, which was introduced into the field of criminology by Proal ([1898] 1973) at the end of the nineteenth century, was revisited by Clinard and Quinney during the 1960s. For Clinard and Quinney (1967, p. 131) political corruption constitutes a form of white-collar crime,<sup>1</sup> where public officials and politicians carry out illegal activities for direct personal benefit in the course of their occupation. Clinard and Quinney argue that politicians are mostly seen as offenders rather than as public servants. According to this view it would be naive to believe in the innocence, respectability and good intentions of political leaders. I will, however, advocate a more positive view of politicians. Therefore, I do not agree with the labelling of politicians as white-collar offenders simply because of their occupation. I agree more with Merton (1938, p. 121), who has suggested that political corruption emerges from a conflict between the norms and values of political leaders. Some criminologists, such as Coleman (1985, p. 46), have stated that this kind of criminal behaviour occurs when the motivation for financial gain neutralizes ethical restraints against exploiting the opportunities that are associated with certain political positions. Furthermore, Shapiro (1990, p. 21) has argued that political leaders in positions of trust are simply norm-breakers and not white-collar criminals.

Nor do I believe that political corruption should be considered a form of organized crime, as has been suggested by Chambliss (1989, p. 184). Della Porta (1997, p. 44) has pointed out that in most cases corrupt politicians interact with organized criminals, rather than being part of the criminal group as was stated by Chambliss. She found for example that in the Italian case, corrupt politicians and organized criminals cooperate

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<sup>1</sup> The term white-collar crime was coined by Sutherland in 1949. He defines white-collar crime as 'a crime committed by a person of respectability and high social status in the course of his occupation' (Sutherland, 1949, p. 9). His definition broadens the focus of criminological studies from street crime towards the crimes of the elite.

with each other through illegal networks in order to retain power in what she has called the vicious circle of organized crime and political corruption.<sup>2</sup> In the case of this particular thesis, I feel it is necessary to proceed on the basis of a similar view. I agree with Della Porta in the sense that the problem at issue involves the interaction between corrupt politicians and criminal organizations (I would also add with legal organizations via improper means) in order to acquire and retain power, and not the political activity itself. In the context of this research I therefore focus on the process that leads to the delivery of benefits to campaign sponsors rather than on other dimensions of this problem, because, as Della Porta has argued, it is through the criminal networks that favours and benefits are delivered.

Consequently, in this thesis, it would be too simplistic to centre the discussion on the offenders. I believe that explanations of the effects of campaign financing should not be centred on the parties or actors involved, but on the process itself. This approach will not only prevent my research from sliding into the ideological debates of the powerful and wealthy, but will also create opportunities for new interpretations. I will proceed cautiously in order to extract the maximum benefit from combining various theoretical approaches. Studying electoral campaign financing on the basis of a holistic view enriched with contributions from other theories and research methods is intellectually stimulating, but it is also a complex task.

I start my argumentation by demonstrating that although campaign financing is a widely accepted and practiced form of funding elections in various countries, it can also constitute a form of political corruption. Political and criminological approaches are combined in order to provide a deeper understanding of this problem. I build my arguments on the behavioural approach introduced by the sociologist Gambetta (2002). Instead of providing explanations of whether political corruption is a consequence of institutional failures or is caused by cultural practices, I will describe and analyse the motives and the implicit rules that allow it to emerge.

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<sup>2</sup> This circle has been illustrated as: Political protection for organized crime → packages of votes and protection for corrupt politicians → increased power for corrupt politicians → contracts and impunity for organized crime → territorial controls reinforced by organized crime → increased possibilities to protecting corrupt politicians (Della Porta, 1997, p. 44).

However, it would be negligent to conduct a study of political corruption without having as a background the contributions of scholars in the political and economic fields. The behavioural approach on which the sociologist Gambetta has based his analysis is itself based on the principal-agent theory developed by economists. Further contributions to understanding the exchange of bribery and interested gifts have also been produced in the field of economic-anthropology. I will use work from both of these fields to complement the behavioural approach. Mauss' theory on gift exchange and the critiques of his reflections are explored here in an attempt to study campaign financing in depth. This contribution will provide the elements needed to describe what criminologists would refer to as the modus-operandi of this offence.

In order to be consistent in the development of my argumentation, it is important to state that it is not merely because I consider that campaign financing can be classified as a political gift that is expected to be reciprocated that it should be labelled as a form of political corruption and as such as a crime. That would be a misleading proposition. It is obviously necessary to provide evidence that can lead to this conclusion. To do so, I use cross-country analysis. This method has been widely used by political-economists to demonstrate that there is a correlation between political corruption and different types of phenomena. Although this does not imply causality, it can provide evidence of the existence of a relationship between these two phenomena.

### ***The structure of this thesis***

This thesis is divided into three parts. In Chapter 1, I present definitions of the two main concepts that I use throughout the work. Here I avoid assuming an arbitrary definition for convenience. In consequence, I present the main contributions that scholars from different disciplines have made in relation to the definition of political corruption. I will also discuss and critique the most widely accepted definitions and also the legal classifications employed by international organizations. I argue that most of the available classifications do not match the concepts or forms of political corruption that they claim to represent. I base this argument on a behavioural analysis of the kind proposed by Gambetta. I conclude the first chapter by presenting a new classification of political corruption which is not limited to the administrative sphere, but which instead

also includes various forms of political misconduct such as electoral campaign financing for example. In addition, I propose an analytical framework for studying whether or not campaign financing can be classified as bribery. In Chapter 2, I explore in depth the reciprocal character of campaign financing, since this seems to be the element that infuses campaign financing with illegality. In particular, I study how the expected reciprocity present in the exchange of political gifts hides the real interests of the givers. I found the contributions made by economic-anthropologists to the study of gift exchange illuminating. In Chapter 3, and proceeding from the fundamental assumptions of both political-economic and economic-anthropological theories, I conduct a cross-country analysis employing relevant data from 83 countries to demonstrate that campaign contributions foster political corruption. In the final section, I present the conclusions from this first stage of my study. I also devote some time to introducing the dimensions that I will be exploring in the second stage of this research.

## 1. DEFINITIONS

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In this chapter, I present definitions of corruption, political corruption and campaign financing, and analyze the different forms that these can assume. Although I base my analysis on the existing scholarship, I suggest a new classification of political corruption practices based on the behavioural approach proposed by Gambetta (2002). Therefore, I focus more on understanding the forms taken by political corruption than on broadening the already extensive debate on the definition of political corruption. In this way, I avoid seeing political corruption as an umbrella concept that fails to connect conceptually to the particular forms that it can assume (Williams, 1999, p. 510). As regards the definition of campaign financing, I propose an analytical framework for comparing the unclear boundaries that exist between interested gifts, campaign financing and bribes considering that this research focuses on the hidden side of such exchanges. Based on this theoretical framework, I argue that campaign financing shares the same characteristics as bribery and that it should therefore be considered a practice of political corruption. This issue will be analyzed further in the subsequent chapters.

### 1.1. DEFINING CORRUPTION

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The term corruption has its etymological origin in the Latin word *corrumpere*,<sup>3</sup> which means to destroy or to break up. According to Heidenheimer (1970, p. 8), this term has historically been employed in a variety of different ways. In ancient times, corruption was related to bribery, while in contemporary times the analysis has shifted towards a focus on different immoral and illegal behaviours among political leaders. In 74 B.C. Marcus Tullius Cicero, a prominent Roman advocate, used the term *corrumpere* to describe the act of paying a judge for deciding in someone's favour (Noonan, 1984, p. 40). Today, dictionaries offer several additional definitions of the term corruption. The three meanings of corruption with the most relevance for this thesis are defined in the Oxford English Dictionary (Murray, Simpson, & Weiner, 1989) as:

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<sup>3</sup> Latin conjugation in active infinitive.

1. Illegal behaviours. Corruption implies that especially people in authority show dishonest or illegal behaviours.
2. Improper acts. Corruption is the act or effect of making somebody change from moral to immoral standards of behaviour.
3. The decay of a matter. Corruption implies alteration or being changed progressively for the worse.

These definitions denote the existence of three different conceptual categories. In the first case, the illegal behaviours definition tends to concentrate the corruption problem to public officials or persons with authority, which symbolizes problems associated with abuses of power. In the second case, the improper acts definition makes reference to the effect that external factors have on modifying other people's behaviours, which reveals the existence of the problems of reciprocity associated with bribery. In the last case, the progressive decay of matter definition indicates the existence of systemic corruption problems that may originate either from abuses of power or from the expected reciprocity exchanges.

These categories present different ways for approaching the study of this phenomenon, which is at the same time one of its limitations. To concentrate the definition of corruption to one category raises problems of comprehension because no one of these categories can explain the complexity of this phenomenon in a holistic way. For example, bribery excludes cases of embezzlement and the trading of influence which, among others, are some of the most common forms of corruption witnessed today. Another serious problem is related to the moral concerns that these three categories share. The fact of proposing a definition based on legality or moral behaviour assumes the existence of universal patterns. However, it is not possible to argue that corruption is a universal phenomenon, even though it is manifested globally, because the laws and moral practices of some countries allow behaviours that are not permitted in others.

Bearing in mind the background provided by these characterizations of corruption and the central problems that they give rise to, I will focus in the next section on defining the phenomenon of political corruption. In doing so, I will be presenting the most representative scholarly definitions of political corruption, and the academic debate

surrounding the definition of this term, on the basis of a range of theoretical approaches drawn from a variety of disciplines.

## 1.2. DEFINING POLITICAL CORRUPTION

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There are different approaches to defining political corruption. In the classical conception of the term, political corruption was conceived as a ***relational problem*** between sources of power and the moral rights of rulers. In 1895, Lord Acton linked the problem of political corruption to the misuse of power characteristic of the despotic governments of the monarchs of the time. Lord Acton's greatest concern was the nature of the ambition of those in positions of power. He stated that 'All power tends to corrupt and absolute power corrupts absolutely' (Acton, [1956] 1895, p. 18). The debate revisited by Lord Acton comes originally from the ideas of Plato and Aristotle about the subordination of the (general) interest to personal interest. In the ancient world, Aristotle and Plato argued that democratic, oligarchic and tyrannical regimes are guided by the personal interests of the rulers and not by the general public interest. They claimed that political corruption is dysfunctional and destructive to any political order. Plato identified the avaricious element of the soul as the most dangerous element in the triad of human nature; while, Aristotle argued that men always want more and are never satisfied until they reach infinity (Dobel, 1978, p. 145).

However, in the political battle for power analyzed by Lord Acton, whose work was also inspired by the thought of Machiavelli, Montesquieu and Rousseau, political corruption was characterized as a ***moral problem*** among those in power. Machiavelli (2007, p. 22) stated that political corruption was a process by which a citizen's virtues were undermined and eventually destroyed. He claimed that even the best individuals can be bribed by a little ambition and avarice because men are insatiable. In the same vein, Rousseau (2004, p. 68) acknowledged the selfish capacity of human beings when arguing that political corruption is an inevitable consequence of the struggle for power. Baron de Montesquieu (1970, p. 320) stated that political corruption is a process that is dysfunctional for the good political order (monarchy) because when this is corrupted, it turns into an evil one (despotism).

Over the past fifty years, the discussion about political corruption has moved away from the moral perspective revisited by Lord Acton at the end of the nineteenth century. In the contemporary debate, political corruption is instead associated with ***institutional and behavioural problems***. In these new perspectives, political corruption is mainly viewed in relation to the impacts that it may have on the state and the economy and the different forms that it can assume.

Under the ***institutional approach***, which was introduced by Van Kleveren in 1957, the study of political corruption as the misuse of power has been focused on the irregular use of public office by power-holders for personal gain rather than on moral concerns. Van Kleveren stressed that abuses of authority play a central role in the process of extortion that is manipulated by public officials in order to obtain particular benefits for themselves (van Kleveren, 1957, p. 26). This concept was later developed by McMullan, who linked political corruption to the abuse of functions committed by public officials that was reattributed in money or money's worth. McMullan states that 'a public official is corrupt if he accepts money or money's worth for doing something that he is under a duty to do any way, that he is under the duty not to do, or to exercise a legitimate discretion for improper reasons' (McMullan, 1961, p. 3). In 1964, Leff (1964, p. 22) supplemented this idea, arguing that public offices have become places of business because public officials use their power and influence to maximize their income. In 1966, Bayley (1966, p. 936) extended the relational problem introduced by McMullan by defining political corruption as a two-way relationship problem which involves multiple actors. He claimed that political corruption should denote the discretionary use of power by public officials rather than the misuse of public power because bribes can originate either from payments made to public officials by organizations and individuals or they can be demanded by public officials. The institutional conception of political corruption as private gain derived from the abuse of functions and the discretionary use of power was redefined into a more holistic conceptualisation by Nye in 1967. He stated that

'Corruption is behaviour which deviates from the formal duties of a public role because of private-regarding (personal, close family, private clique) pecuniary or status gains; or which violates rules against the exercise of certain types of private regarding influence. This includes such behaviour as bribery (use of a reward to pervert the judgement of a person in a position of trust); nepotism (bestowal of patronage by reason of ascriptive relationship rather than merit); and misappropriation (illegal appropriation of public resources for private-regarding uses)' (Nye, 1967, p. 47).

Nye has also denoted interference in electoral activity as one of the main sources of political corruption in public institutions. Thus, nepotism and vote-buying as well as bribery and embezzlement should be considered as political corruption practices because they represent different forms of the abuse of power.

These definitions, which have dominated the institutional approach, have been criticized by scholars who have claimed that although public-office definitions are important for understanding institutional political corruption, this type of characterization shows particular interest in the administrative procedures inside public institutions and in the restrictions imposed by legal frameworks. In this regard, Moodie (1980, p. 180) has claimed that examples of malpractice in public administration correspond better to inefficiency than to corruption; therefore, state weakness should not be called political corruption. He has also argued that these definitions are too centred on local cultural considerations to permit comparative studies over time or even across cultures. Therefore, he claimed that it is not possible to conduct comparative studies of this phenomenon because it has only been proscribed by law in some countries, while it is considered normal in others.

Some scholars counter these ideas by claiming that sometimes political corruption seems to be very helpful in many situations in which the rigid political system can only be made to work by circumventing the processes required by law. This view was first introduced in 1968 by Huntington, who argued that political corruption is prevalent in societies as they undergo the modernization phase. Huntington argues that modernity breeds political corruption because: firstly, it involves a change in the basic values of society; secondly, the modernization process involves the appearance of new sources of wealth and power, and new classes make new demands of government; and thirdly, modernization imposes the adoption of control outside the governmental authority and therefore increases the regulatory function of the state which is fragile.

For Scott (1969, p. 278) the functional benefit of political corruption has a rather different political significance. He claims that patronage and political corruption are associated with the political machinery because they are 'specialized in organizing and allocating influence.' For example, he claims that the political machinery is responsible for bargaining based on reciprocal relationships. The pragmatic and clientelistic

orientation of this machinery allows it to respond to the clients' needs in a manner that also means it can demand their support. In the same vein, Key (1963, p. 40) has argued that corruption is necessary for politics. Key claims that grafts are the most influential form of administrative power. He states that grafts serve to control the electorate, because political organizations dispense all governmental favours through the party hierarchy. Werner's arguments (1983, p. 189) about the positive impact of political corruption indicate firstly that political corruption is an accommodating device used to provide economic opportunities which promote development and foreign investment; secondly, political corruption encourages party-building under the direction of political leaders; thirdly, political corruption brings elasticity to rigid bureaucracies, by providing supplementary opportunities; finally, political corruption feeds on itself; therefore, where political corruption is tolerated it is possible that it will become systemic.<sup>4</sup>

Several scholars have criticized this perspective because for them, political corruption is dysfunctional for democracy, institutional development and economic growth. For example, Rose-Ackerman (1999, p. 38) has claimed that corrupt officials distort public sector choices and produce inefficient public policies. Myrdal (1968, p. 953) has noted that political corruption is one of the forces that helps to preserve low social discipline in the state because where political corruption is widespread, inertia and inefficiency impede the process of decision-making. Della Porta and Vannucci (1999, p. 256) have argued that political corruption increases the weakness of checks and balances that should limit the discretionary power of public administration. Additionally, Mauro (1997, p. 83) has also demonstrated that high levels of political corruption are associated with lower levels of investment. Ades and Di Tella (1997, p. 6) have shown that in the presence of political corruption, the positive impact of industrial investment is halved. Vito and Davoodi (2000, p. 10) have concluded that political corruption makes public investment and economic growth unsustainable. Owoye and Bendaraf (1996, p. 608) furthermore demonstrated that political corruption shifts the production functions, reduces the level of employment and increases the price level in the product market. Additionally, they have claimed that political corruption negatively affects the level of consumption, domestic investment, government spending and net

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<sup>4</sup> Elster (1989, p. 268) claims that corruption can serve as a cement – 'a hyphen which joins, a buckle which fastens' the otherwise separate and conflicting elements of a society into a body politic.

exports. Finally, Kurer (1993, p. 497) has demonstrated that political corruption also affects the design of public policy, when rent-seeking politicians can guarantee future rents derived from the decision process. He argues that typical examples include cases of nationalization and regulation.

The contradiction between the practical helpfulness of political corruption and its negative effects on public institutions provides evidence of the difficulties that can emerge when one attempts to define political corruption. Thus although political corruption represents misconduct and dishonest behaviour it is not possible to argue that these activities are always illegal. In this regard, Heywood (1997, p. 346) has argued that although illegality is a central element in many definitions of political corruption, it is impossible to state that all illegal practices in which public officials are involved constitute political corruption because concepts of illegality and laws vary across different countries. Bearing in mind these difficulties and the complexity of defining the term political corruption, scholars and practitioners have moved the debate towards analysing the forms of wrongdoing that can be classified under this ‘umbrella concept’.

In 1985, Gibson (1985, p. 774) defined political corruption based on a ***behavioural approach***. Through a study conducted among 279 students at various university levels in the Canadian province of Montreal, Gibson tested, in a quantitative survey, nine different types of dishonest practices (patronage, vote-buying, pork-barrelling, bribery, graft, conflicts of interest, nepotism, influence peddling and campaign financing),<sup>5</sup> and he found that 8 of the 9 practices evaluated were recognized and qualified as corrupt by respondents.<sup>6</sup> However, in the case of campaign financing,

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<sup>5</sup> Patronage was defined as the hiring of government employees according to partisan considerations rather than by virtue of merit. Vote-buying was defined as the attempt to influence a vote by virtue of monetary inducements or the equivalent. Pork-barrelling was considered as the attempt to sway the support of a constituency by the promise of public works projects such as highways or schools. Bribery is the act of trying to influence an official to make a decision he or she would not otherwise make by offering a monetary reward. Graft represents the same as bribery but in this case the action is initiated by the public official. Conflict of interest refers to an individual official making decisions which are seen to be unduly influenced by his or her private interest. Nepotism is parallel to patronage but the motivation is not partisan advantage but kinships or friendship. Influence-peddling refers to officials who bring their influence to bear on others in government. Finally, campaign financing involves contributions to the campaign fund of a party that are seen as compromising or potentially compromising the party's integrity (Gibson, 1985, pp. 763-764).

<sup>6</sup> Similar results were found by Andersson (2002, p. 114) when Gibson's study was replicated in Sweden.

the incongruent status of this practice prevented respondents from classifying it as political corruption.

The behavioural approach introduced by Gibson was ignored by scholars and practitioners for more than a decade, because it tends to classify political corruption in terms of forms of wrongdoing that are directly related to illegal practices. During the 1970s and 1980s, most scholarly contributions shifted between the moralistic and institutional boundaries without paying much consideration to legal constraints, because political corruption was not a crime.<sup>7</sup> It was only at the end of the nineties when political corruption had started to be recognized as a crime that the behavioural approach started to be revisited as a result. In fact, with the adoption of regional conventions (American States, 1996; Europe, 1997, 2002 and 2003; Africa, 2003, 2005; the OECD countries, 1999; and more recently the United Nations, 2005) the debate on political corruption has come to focus on the illegal character of this practice and the different forms that this crime can adopt, rather than on merely abstract discussions. However, this does not mean that the illegal practices identified in the international instruments that attempt to fight corruption correspond in reality to the forms taken by political corruption, as I will explain in the next section.

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#### 1.2.1. FORMS OF POLITICAL CORRUPTION

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To avoid defining political corruption without linking the definition to the forms that such corruption can assume, I employ in this thesis the behavioural approach proposed by Gambetta. He claims that although political corruption is a *sui generis* phenomenon, it is possible to define and identify it in terms of illegal, immoral and improper practices which are not always inefficient. ***Gambetta has defined political corruption as the abuse of entrusted power*** (Gambetta, 2002, p. 34). I assume the same definition.

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<sup>7</sup> Heidenheimer (1970, p. 149) proposed 3 forms of political corruption, namely: black, gray and white. I do not use Heidenheimer's approach in this thesis because it lack of precision on defining the different forms of political corruption. Additionally, colour approaches tend to qualify preliminary the degree of participation of the actors involved. I consider that the severity of the practice should not be involved in the definition, but on the penalization of it. Therefore, Heidenheimer's classification which has mainly theoretical uses cannot be applied in the analysis of the criminal offence of political corruption.

Gambetta has suggested that when defining political corruption, scholars and practitioners should take into account the relationships between the actors involved in order to explore whether or not a practice should be considered as political corruption. For Gambetta, ***political corruption exists whenever a truster and a corrupter cooperate with each other with the help of a fiduciary.*** If one of these actors is not present, the evaluated practices should not be considered political corruption. Gambetta's standard model, which is a temporal one, assumes the interactions between three agents: the truster (T), the fiduciary (F) and the corrupter (C). The exchange relationship among these agents is initiated when:

'C wants certain resources that F is *not* supposed to deliver to him, given the conditions of his relation to T [...] In the standard case no pressure is applied by F to force C to pay a bribe to F, or by C to force F to accept a bribe [...] T has the legitimate claim to regulate the allocation of the resources in question, where as both F and C are excluded from its control' (Gambetta, 2002, p. 34).

Gambetta's model assumes that political corruption is a rent-seeking activity where individuals seek to redirect government policies and services for their own benefit. However, there is an important nuance, which makes the two concepts non interchangeable. Political corruption implies the use of illegal mechanisms, whereas in the case of rent-seeking, individuals turn to the law to benefit their own interests (Jain, 1998, p. 19). Two models have been used to explain political corruption as a rent-seeking activity (Becker, 1968, p. 179), namely: the resource allocation model and the principal-agent model.

The resource allocation model is based on the premise that rent-seeking activity constitutes part of the economic performance, as well as the activity of firms. This model assumes that in a competitive world regulated by the government, entrepreneurs use all their efforts in the production of goods and services. Political corruption takes place when these entrepreneurs pay money under the table to government officials to obtain licences and contracts that allow them to conduct their business. The payment (bribe) is determined by the rent available to capture. According to Rose-Ackerman (1978, p. 661) bribes act as incentives which lower costs and permit criminal activity. She has stated that although the models of economists usually assume that law-abiding behaviour is the norm, in reality individuals, profit-making firms and government officials can display behaviours that deviate from the norm.

In the case of the principal-agent model, it is assumed that an agent serves the interests of a principal in exchange for money. Klitgaard (1991, p. 127) has argued that in the case of political corruption this interaction takes place in five steps: first, the principal selects an agent inside the government organization; second, the principal gives rewards and penalties to the agent in compensation for principal's participation in providing the client with services; third, the principal defines the relationship between the agent and the client; fourth, the client pays the agent for its services; fifth, the principal obtains information about the exchange between the agent and the client. The main difference between this approach and the one proposed by Gambetta is that in Gambetta's model there are three agents instead of two. For Gambetta the client is also a corrupt agent, while for Klitgaard the client is not. For Klitgaard, the client is a victim of the corrupt interests of the principal, while for Gambetta the client is part of the corrupt exchange.

For Gambetta the basic forms of political corruption are bribery, nepotism and extortion, because in these cases it is clear that the truster can use its power to bring influence to bear on the fiduciary, but this power is not absolute. He has also stated that in these three cases, the fiduciary operates under the command of the truster, but he/she does not do it on his/her own (Gambetta, 2002, pp. 44-46).

As regards the scholarly debate on defining the forms of political corruption, Gambetta argues that most of the classifications fail in explaining the role of one of these actors when the misconduct takes place. These practices should not therefore be identified as political corruption, but as another type of illegal misconduct. Gambetta has identified five situations in which this usually happens. First, when the fiduciary represents its own interest, but not the corrupter's interests. Second, when the fiduciary is not an agent. Third, when the truster controls the rules but not the fiduciary. Fourth, when the truster has a monopoly of power. Fifth, when the fiduciary does not perform its duties, but this does not affect the corrupter's goals.

Gambetta has demonstrated that theft, fraud, kleptocracy, selective incentives, and organized crime are not political corruption practices (Gambetta, 2002, pp. 47-50). One reason for this is that in the theft case, thieves are not agents (fiduciaries) of a victim; in the case of fraud, the embezzling of funds is undertaken by the fiduciary but in his or her own interest; in the case of kleptocracy, the services are not provided by the state, and

consequently the truster's actions are not influenced by the corrupter; in the case of selective incentives, the truster pays the fiduciary for what he/she is supposed to do; and finally, in the case of organized crime, political corruption takes the form of extortion because the mafia intimidates the fiduciary into acting in the name of the corrupter.

An extension of Gambetta's analytical model of the categories proposed by Gibson (1985) shows that six of the eight offences proposed by Gibson can be counted as political corruption. For Gibson, there is a clear connection between the fiduciary (members of the political machinery), the corrupter (campaign financial supporters) and the truster (political leader). As stated by Gibson, supporters give money or electoral support when they are looking for contracts, infrastructure projects and jobs, which are supposed to be delivered by the political machinery of the political leaders that is installed inside public institutions. In particular, in the cases of nepotism and campaign financing it is clear that the truster is willing to fulfil his/her promises to the corrupter, who plays a central role during his/her political campaign. The fiduciary can be observed to play a more active role in the cases of vote-buying, bribery, graft, conflicts of interest and influence peddling, where the fiduciary represents the corrupter's interests to the truster, who is willing to compensate him/her in return for economic benefits. However, in the case of conflicts of interest, as Gambetta has argued, the fiduciary is not an agent.

Recently, extensive lists have been introduced which attempt to extend the behavioural approach to numerous other forms of illegal and immoral behaviour. For example, Caiden (2002, p. 17) has proposed 60 practices of corruption in nineteen different categories, based on the argument that these practices are currently present in public administration and the political arena (Table 1). The first aspect of Table 1 that deserves special attention is that Caiden defines political corruption in terms of crimes against the state, which can be ideological (Categories 1 and 17) as well as administrative (Categories 2 to 8, 10 to 16, 18, 19) and electoral (Category 9). It is notable that Caiden extends the concept of political corruption beyond an administrative problem. Unfortunately, the electoral practices included (tampering with elections, vote rigging and gerrymandering) do not make reference to the problems of political

corruption; they are mostly related to administrative problems that can take place in the context of elections. Regarding the ideological concerns, it is interesting to observe that Caiden does not distinguish organized criminals who engage in smuggling, subversion and treason from those who are involved in political corruption. Nonetheless, since these actors do not constitute part of the state as public officials, the inclusion of this type of irregular behaviour is not correct. A second aspect which is important to emphasize is the detailed description of administrative wrongdoing. For example, Caiden expresses political corruption mainly as the abuse of functions (Categories 4, 5, 7, 10 to 13, 16, 18, 19); however, he also includes practices of bribery (Categories 8, 15), embezzlement (Categories 2, 3), trading in influence (Category 14), and obstruction to justice (Category 6).

**Table 1. Classification of political corruption in terms of types of wrongdoing according to Caiden**

- |  |
|--|
| 1. Treason; subversion; illegal foreign transactions; smuggling  |
| 2. Kleptocracy; privatization of public funds; larceny and stealing  |
| 3. Misappropriation; forgery and embezzlement; padding of accounts; diverting funds; misuse of funds; unaudited revenues; skimming |
| 4. Abuse and misuse of power; intimidation; undeserved pardons and remissions; torture   |
| 5. Deceit and fraud; misrepresentation; cheating and swindling; blackmail  |
| 6. Perversion of justice; criminal behaviour; false evidence; unlawful detention; frame-ups  |
| 7. Non-performance of duties; desertion; parasitism; cronyism  |
| 8. Bribery and graft; extortion; illegal levies; kickbacks   |
| 9. Tampering with elections; vote rigging; gerrymandering  |
| 10. Misuse of inside knowledge and confidential information; falsification of records  |
| 11. Unauthorized sale of public offices; loans, monopolies, contracts. Licenses, and public property                               |
| 12. Manipulation of regulations, purchases and supplies; bias and favouritism in decision making                                   |
| 13. Tax evasion; excessive profiteering  |
| 14. Influence-peddling; favour-brokering; conflicts of interest  |
| 15. Acceptance of improper gifts and entertainments; 'speed' money; junkets  |
| 16. Protecting maladministration; cover-ups; perjury   |
| 17. Black market operations; links with organized crime  |
| 18. Misuse of official seals, stationary, residencies, and perquisites   |
| 19. Illegal surveillance; misuse of mail and telecommunications; improper use of electronics and computers                         |

Source: Caiden (2002, p. 17).

Applying Gambetta's analytical model to the classification proposed by Caiden shows that not all the categories proposed by the latter can be counted as a political corruption. Only bribery and extortion can be considered forms of political corruption because they imply the intervention of agents in the exchange relationships. In Table 2,

the five misinterpretations that Gambetta has identified are used to explain why Caiden's types of political corruption should not be counted as such.

**Table 2. Types of wrongdoing that should not be classified as political corruption**

Practices	Own interest (1)	No agency (2)	Control rules (3)	Monopoly (4)	No performance (5)
1. Treason			X		
2. Subversion			X		
3. Illegal foreign transactions				X	
4. Smuggling			X		
5. Larceny and stealing			X		
6. Padding of accounts	X				
7. Unaudited revenues					X
8. Skimming					X
9. Intimidation				X	
10. Undeserved pardons and remissions					X
11. Torture				X	
12. Deceit and fraud	X				
13. Misrepresentation	X				
14. Cheating and swindling	X				
15. Perversion of justice					X
16. Criminal behaviour	X				
17. False evidence	X				
18. Unlawful detention				X	
19. Frame-ups				X	
20. Non-performance of duties					X
21. Desertion					X
22. Parasitism					X
23. Cronyism					X
24. Illegal levies					X
25. Tampering with elections				X	
26. Vote rigging				X	
27. Gerrymandering				X	
28. Falsification of records	X				
29. Unauthorized sale of public offices				X	
30. Tax evasion	X				
31. Excessive profiteering	X				
32. Protecting maladministration				X	
33. Cover-ups	X				
34. Perjury	X				
35. Black market operations					X
36. Misuse of seals/stationary/residencies					X
37. Illegal surveillance					X
38. Misuse of mail/communications					X
39. Improper use of electronics/computers					X

Source: Authors classification.

(1) When the Fiduciary does represent its own interest, not the Corrupter's interests

(2) When the Fiduciary is not an agent

(3) When the Truster controls the rules not the Fiduciary

(4) When the Truster has the monopoly of power

(5) When the Fiduciary does not perform its duties, but it does not affect the Corrupter's goals

Generally speaking, Caiden often tends to confuse political corruption with activities that only provide a benefit for the fiduciary. These practices represent different types of fraud (Column 1); therefore, they cannot be counted as political corruption. Secondly, in many of the practices proposed by Caiden, there is no fiduciary in the exchange relationship. This implies that the corrupter and the truster operate without the mediation of the fiduciary (Column 2); therefore, this behaviour corresponds to an illegal exchange, but not to political corruption. Thirdly, when the truster controls the rules over the fiduciary and forces the fiduciary to concur in misconduct, this situation should not be considered as political corruption because the truster only uses the fiduciary to achieve his/her own goals (Column 3). Fourthly, a similar situation to the one just described occurs when the truster exercises a monopoly over the decision-making process. In this case, the truster adopts decisions that are taken by the fiduciary without providing benefits to the corrupter (Column 4). Finally, the truster decides not to do his/her duties, without affecting other interests than his/her own. Therefore, no benefit or reward is provided to the corrupter or the fiduciary. As a consequence, this should not be considered political corruption (Column 5).

Beside Gambetta's efforts to distinguish various types of wrongdoing and misconduct from corrupt practices, recent legal developments have mainly focused on prosecuting a number of offences. Seven international conventions and one protocol currently deal with political corruption (Table 3). It is well-known that in the case of the OECD Convention on Bribery, the Council of Europe Civil Law Convention on Corruption and the Southern-African Protocol against Corruption, political corruption is expressed in terms of bribery and money laundering. However, the other conventions have a broader scope because they also penalize a number of types of administrative wrongdoing as political corruption, as in the case of the Inter-American Convention against Corruption, the European Union Convention to Fight Corruption, the Council of Europe Criminal law Convention on Corruption and the African Union Convention on Preventing Corruption. In these instruments it is implicitly recognized that political corruption not only takes the form of bribery and money laundering, but may also involve trading in influence, the abuse of functions and embezzlement. However, it is worrying that these legal instruments only cover administrative misconduct and ignore

problems derived from political activity; I am here referring to nepotism and campaign financing.

**Table 3. Corruption practices penalized in international legal instruments**

Scope	Source	Instrument	Penalized practices	Entered into Force
Global	United Nations (2005)	United Nations Convention against Corruption	Bribery Embezzlement Trading in influence Abuse of functions Illicit enrichment Laundering of proceeds of corruption Concealment Obstruction of justice	14 December 2005
Regional	Organization of American States (1996)	Inter-American Convention against Corruption	Bribery Concealment Abuse of functions Illicit enrichment	29 March 1996
	European Union (1997)	Convention on the fight against Corruption involving Officials of the European Communities or officials of Member States of the European Union	Bribery Trading in influence	25 June 1997
	Organization for Economic Cooperation and Development (1999)	Convention on Combating Bribery of Foreign Public Officials in International Business Transactions	Bribery Money laundering	15 February 1999
	Council of Europe (2002) (2003)	Criminal Law Convention on Corruption  Civil Law Convention on Corruption	Bribery Trading in influence Money laundering  Bribery	1 July 2002  1 November 2003
	African Union (2003)	African Union Convention on Preventing and Combating Corruption	Bribery Abuse of functions Embezzlement Trafficking of influences Illicit enrichment Concealment	Not yet, but adopted 13 July 2003
	Southern African Development Community (2005)	Southern African Development Community Protocol against Corruption	Bribery Money laundering	6 July 2005

A similar situation can be observed in the United Nations Convention against Corruption (UNCC), where political corruption is characterized in terms of eight criminal offences: bribery, embezzlement, trading of influence, abuse of functions, illicit enrichment, laundering the proceeds of corruption, concealment and obstruction of justice. In this case, the first four offences represent the traditional forms of administrative corruption, while the remaining four correspond to subsequent crimes derived from the main political corruption act. Applying Gambetta's analytical model to the UNCC, it can be argued that there is only intermediation in the cases of bribery and the trading of influence; therefore, these are the only two practices that constitute political corruption. In particular, it can be noted that the other cases correspond to other forms of crime. For example, in the case of embezzlement there is no fiduciary who mediates the relation between the public officials and the clients, while in the case of the abuse of functions the truster has the monopoly of power and no intermediary is therefore needed in the relationship. As regards illicit enrichment, the fiduciary, the corrupter, and the truster are all the same person because there is only one agent involved in this crime, while in the cases of laundering the proceeds of corruption, concealment and obstruction of justice, there are more than two agents.

On the basis of the analytical model proposed by Gambetta, I argue that political corruption can take both administrative and political forms. In the administrative sphere, political corruption can be represented as: bribery and trading with influence; while in the political arena it can adopt the forms of: vote buying, nepotism/patronage and campaign financing. In these five cases: firstly, the three parties (truster, fiduciary and corrupter) are all present; secondly, the fiduciary does not represent its own interests; thirdly, the fiduciary does not control the rules; fourthly, the fiduciary has the monopoly of power; fifthly, the non-intervention of the fiduciary affects the well-being of the corrupter. Therefore, these five practices can be considered forms of political corruption. An explanation of these practices follows below, based on some examples from previous research to illustrate the different forms in which they operate.

## **Bribery**

Bribes have been described as an exchange which is secret and non-accountable (Noonan, 1984, p. 695). In this case the *fiduciary* is represented by a public official who has direct contact with the clients of the public offices; the *corrupter* may take the form of citizens or private companies which require the institution's services, and the *trustee* is the public official responsible in some higher instance for making the final decision. Usually, bribery operates through a variety of strategies depending on where reciprocities are delivered; therefore, the differences that exist between different countries with regard to bribes are more quantitative than structural (Johnston, 2005, p. 42). By and large, these actors exchange bribes in three particular cases: for contract allocation, for speeding up the queuing process and for avoiding institutional controls.

When bribes affect the efficiency of contract allocation, bribers purchase pieces of authority if the discretionary power is held by public-officials responsible for allocating resources (*trustee*). Scholars have demonstrated that even in the conditions of perfect competition emulated in auctions, bribes can distort market conditions (Rose-Ackerman, 1975, p. 191; Bardham, 1997, p. 393; Beck & Maher, 1986, p. 161). Moreover, Kaufmann and Vicente (2005, p. 6) have recognized that the use of auctions does not guarantee transparency because in the allocation process the auctioneer and the bidder switch favours in every other auction to prevent the reactions derived from an aggressive reaction by the loser over time.

In weak institutions, complex procedures create opportunities for political corruption. Dealing with the public administration can be tortuous when procedures involve several layers of bureaucracy or when it is difficult to access public services. In this respect, Kleinrock (1967, p. 184) has argued that a citizen (*corrupter*) who dislikes queuing pays a bribe after he/she sees the length of the queue (impatience); therefore, he/she is willing and economically able to pay a bribe for a place in the queue in front of those who have paid smaller bribes, but behind those who have paid larger bribes. Thus the bribe is linked to the opportunity cost of the customer when he/she can decide the amount of the bribe (Lui, 1985, p. 55).

Inside public organizations, bribes can also be used to eliminate external, internal and hierarchical controls. Cadot (1987, p. 162) has shown that lower and higher ranked

officials may be interested in establishing a tight long-term network of relationships, which maintains loyalties, vassalage, and clientelism and allows the presence of political corruption among peers and subordinates. Thus, 'each level is encouraged by the other.' In the same vein, Hellman, Jones and Kaufmann (2000, pp. 2, 4) have demonstrated that the capture of state power demands large quantities of money not only to gain and stay in power, but also to maintain the influence over the public bureaucracy. Thus, laws, regulations and policies are sold to economic powers.

### ***Trading in influence***

When benefits are provided to some individuals (*corrupters*) rather than others, the public official (*truster*) peddles her/his influence over those responsible for the decision-making process (*fiduciary*). By affecting this process, public officials (*truster*) guarantee the delivery of reciprocity as a result of the corrupt exchange. The fiduciary of the exchange relationship activates an operational network (*truster*) inside the public institution to fulfil his/her compromises with the bribe-giver. The size of the network varies according to the complexity of the issue concurred. Citizens (*corrupters*) get involved in this kind of illegal exchange as a strategy to survive the daily contact with public institutions, as has recently been confirmed by Miller, Grodeland and Koshechkina (2001, p. 29).<sup>8</sup> These scholars have argued that citizens are 'victims of circumstances' and that they are forced to pay bribes although they do not want to do so. They have also claimed, as Della Porta and Vannucci (1999, p. 261) have noted, that maladministration leads to political corruption in everyday contacts with public officials. This trafficking of influence is a crime of opportunity, which is carefully planned by potential offenders to entrap those referred to as 'victims of circumstances' into contexts that have been deliberately created (Gardiner & Olson, 1974, p. 278). A clarifying example can be taken from a Russian case where this practice is locally referred to as *blat*.<sup>9</sup> According to Crankshaw:

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<sup>8</sup> They have also suggested that when citizens are dealing with post-communist officials, they use other strategies that appeal to higher officials, argument, persistence, unusually pleasant behaviour or even passive submission.

<sup>9</sup> *Blat* can be defined as the informal exchange of favours based on personal relationships during the communist period in Russia. This practice still exists today, but it is now used to denote the trading of influence within the public system (Ledeneva, Novell, & Rogachevskii, 2000, p. 6).

*'Blat* is essentially the product of an under-the-counter mentality which causes friends and acquaintances to combine together to defeat the shortages, and the unlimited, obstructive, entangling red tape of the bureaucratic machine [...] Straight bribery is quite another matter. *Blat* stands for the exchange of personal favours and is human and warm' (Cranshaw, 2000, p. 74)

### ***Vote-buying***

Since politicians have to work hard to win over and retain their electorate (Duarte, 1995, p. 36), political leaders sometimes believe that there is no other alternative than to buy votes in order to win elections (Chubb, 1982, p. 4). Vote-buying can be seen as a strategy used by political parties to perpetuate their power (Shefter, 1994, p. 26). When political leaders (*truster*) aim to achieve power by winning elections, they use their political machinery (*fiduciary*) to either give money or offer favours to their supporters (*corrupter*) in form of access to public goods or goods for personal use; supporters have the responsibility of voting for the political leader or the person appointed by him/her on election day. Considering that vote-buying is a short-term exchange which takes place during elections, it is necessary for politicians to create and maintain the dependency nexus with their supporters in order to guarantee successful results in the next electoral contest. This implies that some benefits have to be delivered between elections in order to keep supporters satisfied. Therefore, the short-term relationship turns into a permanent relationship because politicians need to keep their networks alive. Diaz has illustrated this phenomenon in Colombia in the following way:

'In my house six people vote including my mother, every time we have to. For example, if a letter is needed to get a job; if there is a patient, we need a letter of recommendation so that they get attention...it is known that we remain compromised for the day of elections: we vote for the person that helped us.'

'The Guerras built a health centre. There is a nurse....taking note of everyone who attends. We sell our vote.'

'I believe that more or less 70% of the students here receive scholarships from the politicians of the department...I myself had to collect votes for the conservative party' (Diaz, 1986, p. 74).

### ***Nepotism/Patronage***

While nepotism is used to help relatives to be appointed to a specific job, in the case of patronage the beneficiary of the corrupt exchange is non-family related. When posts are

going to be appointed in both cases, public officials (*fiduciary*) have to follow politicians' (*truster*) orders to deliver special services to the political leader's electoral supporters (*corrupter*). Sometimes, political leaders also demand a percentage of clients' salaries to support their political movement. For instance, in 1995 the Colombian congresswoman Regina Betancourt was denounced by one of the public officials she appointed because she was demanding US\$90 from him per month. Mrs Betancourt admitted this irregularity but justified the situation by explaining that she needed to fund her political movement in any way possible. She went to prison in 1996 (*El Tiempo*, 8 December 1995, p. 1-A). When the post is at any international organization or diplomatic mission, the job itself is the main benefit because the economic conditions associated with these positions are sufficiently favourable for the client. Patrons only demand loyalty from this kind of client. The Colombian journalist Francisco Celis disclosed the hidden structure of diplomatic post assignment in 1993. He states that there are three possible levels. At the first level there are politicians, who apply their knowledge to benefit the country. At the second level, there are *politiqueros* (bad politicians), who obtain their posts in return for political support or other favours. At the third level, there are career diplomats who try to get promoted. He found that in 1993, at least half of the posts were assigned to the second group (*El Tiempo*, 7 March 1993, p. 1-A).

### ***Campaign financing***

In this particular case the corrupt exchange starts when campaign funders (*corrupter*) seek to achieve specific goals, which are only possible by giving money to the campaign of the political leaders (*truster*) through the political machinery of the candidate (*fiduciary*). Contributors expect the political leader to compensate them either with contracts, jobs or favourable regulations, which are delivered through the fiduciary who is appointed by the leader to public office after the elections. This is possible because once the political leader (*truster*) is in office; he/she has control over certain public institutions. Beside the unlawful connections between campaign donors (*corrupter*) and political leaders (*truster*), campaign financing is a legal activity that in many countries is even regulated. This dual relationship generates a debate on whether or not financial political support during elections is a criminal offence or if it is the expression of

personal affection or ideological support (Rose-Ackerman, 1999, p. 92). This discussion is examined in more detail in the next section.

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### 1.2.2. CAMPAIGN FINANCING AS A FORM OF POLITICAL CORRUPTION

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The money used for the funding of electoral activities can come from private or public sources. Since my interest in this thesis is in private campaign financing, I focus in this section on this particular type of electoral funding. Rose-Ackerman (1999, p. 92) has argued that campaign contributions are imperfect gifts because 'they are intended to express a limited love, identification with a cause', while Wästerfors (2004, p. 30) has used the term 'blameworthy gifts' to denote this type of political gift. In this thesis, I argue that campaign financing is similar to bribery.

In Table 4, I compare gifts, bribes, and campaign financing based on the following categories: the intention of the exchange, the *quid pro quo*, the character of the bond, and the visibility of the process. This framework provides a conceptual base for the characterization of this particular offence centred on the idea of analysing the interactions that take place during the exchange process. Therefore, it will provide a broad understanding of the real intentions and the effects of this type of exchange. It should be also mentioned that gifts and campaign financing are studied in positive and negative terms. This leads to the following polar opposites: gifts vs. interested gifts and campaign financing vs. suspicious campaign financing, as can be observed in the following table.

From the Table 4, it can be concluded that gifts are manifestations of gratitude and affection which can be disclosed openly, but sometimes gifts can generate implicit obligations. Similar analyses can be conducted in the case of campaign financing when supporters express their support not only with the vote but via endowment. However, in the case of suspicious campaign financing and interested gifts, reciprocities are expected to be paid in the future, which turn these practices into illegal activities. Apparently the illegality does not come simultaneously when the gift or the campaign financing is given, but when the reciprocities are delivered in the future. The non-simultaneity between the given and the receiving moments makes it difficult to argue about the illegality of these

concepts; nonetheless, the existence of this gap validates the idea of reciprocity at the moment of giving, as has been argued by Bourdieu (1977, p. 5). Therefore, long term considerations of the impact of suspicious campaign financing must be used to validate the idea of illegality. Therefore, when scholars compare the polar opposite gifts – bribes and political contributions – bribes, the conclusion is obvious. Bribes denote unlawfulness and illegality, whereas gifts and campaign financing are considered well-intentioned actions because their analysis excludes consideration of the long term impact of these types of instrument. A close analysis of this last point is presented below.

**Table 4. Comparison of gifts, electoral campaign financing and bribes**

Characteristics of the exchange	Gifts	Interested Gifts	Electoral campaign financing	Suspicious campaign financing	Bribes
<b>The intention</b>					
Is just gratitude or affection	Yes	No	Some-times	No	No
To facilitate administrative processes (access to public services, speed up queues and proceedings, modify a decision, obtain contracts)		Yes		Yes	Yes
To guarantee state preferences (favourable bills and regulations/ job appointments)		Yes		Yes	Yes
To evade the law		Yes		Yes	Yes
<b>Quid pro quo (given in return)</b>					
Generates implicit obligations	Yes	Yes	Some-times	Yes	Yes
The giver can demand compensation	No	No	Yes	No	No
It is initiated by the giver	Yes	Some-times	Yes	Some-times	Some-times
Mediator and giver arrange the exchange in advance	No	Yes	Some-times	Yes	Yes
The size of the reciprocity is relevant	No	Yes	Yes	Yes	Yes
<b>Dependency</b>					
The giver (trustee) is subordinate to the mediator (fiduciary)	No	Yes	No	Yes	Yes
<b>Visibility</b>					
It can be regulated	No	No	Yes	No	No
Can be disclosed without legal consequences	Yes	No	Yes	No	No

Source: Author's classification.

### ***Interested gifts***

Interested gifts can be likened to bribes when the intention of the giver is to facilitate administrative processes, to guarantee preferences, or to evade the law. For example, in the case of the police in New York, the Knapp Commission<sup>10</sup> reported that police officers receive free food and coffee in certain places as gestures of consideration, when local landlords and shop-owners seek to attract the police to their neighbourhoods (Gardiner & Olson, 1974, p. 177). Nonetheless, gifts to public officials can also be more expensive and refined, such as luxury trips and expensive or sanctuary gifts. For example, according to Transparency International (2006) the firm Alcatel-Lucent Technologies gave over \$15 million in cash, gifts and the use of private jets to a Saudi Arabian minister of Post, Telephone and Telegraph between 1995 and 2002 in order to secure telecommunications projects in the Kingdom.

Interested gifts create reciprocities, although the giver cannot demand any legal compensation. The parties involved trust each other as a basic rule of their relationships; however, these relationships are asymmetric because the giver is always subordinated to the receiver. This asymmetric subordination takes place when the giver (*corrupter*) does not have access to the internal network (*fiduciary*) because the receiver (*truster*) plays the role of neutralizer in the process. The giver (*corrupter*) does not have information about the receiver (*truster*) nor about the internal process to achieve his or her demands. Thus, when the giver pays a bribe he/she is in hands of the illicit network that may or may not keep the agreement. In most of the cases, the gift-giver's demands are met, which increases trust in the illegal networks due to their apparent efficiency. When these demands are not met, it can be argued that the value of the reciprocity was not sufficiently great to motivate the internal illicit organization.

This implies that any gift given to a public official is considered interested. However, in some countries legislation allows public servants to receive certain gifts without any legal implication. In Box 1, I analyze the case of the state legislators in the United States to illustrate that laws can allow the exchange of gifts, which reflects the complexity of the gift-giving problem.

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<sup>10</sup> Commission to investigate allegations of police corruption and the city's anti-corruption procedures.

The ambiguity observed in Box 1 is problematic because legal gifts are exchanged in situations that can lead to favourable compensations for the gift-giver. For example, if food and beverage in the context of business activities is allowed, how it can be guaranteed that the professional relationship is not affected? The same can happen when a member of the congress in the USA receives an award or a plaque. It is impossible to guarantee that future exchanges will not be the objective. This implies that an exchange does not lead to an immediate reciprocity, because the compensation can take place in the future as has been argued by Bourdieu (1977, p. 5). This puts professional gifts on the same level as bribes, as was noted earlier.

#### **Box 1. What a legislator can receive from a lobbyist in the USA**

In an attempt to control the possible influence of lobbyists on the activity of legislators in the USA, each state has adopted measures to rule this practice and to sanction those who exceed the limits. A detailed description of each state's regulations is presented in Appendix 1; the general conclusions are presented below.

In 48 of the 52 states of the United States of America, state legislators are not allowed to receive gifts in money or that are worth money; however, in every State the legislation considers exceptions. Expensive gifts such as automobiles, properties, antiques, stocks, and pensions are explicitly restricted in Mississippi, New Hampshire, Oklahoma, and South Carolina. In the case of less expensive gifts the regulation is more flexible and at the same time more variable. For example, in one third of states the regulation establishes the gift's maximum value that a state legislator is allowed to receive. The criteria are not consistent. In some states such as Arizona, state legislators cannot receive gifts for more than US\$10 per year; while in others like Texas legislators can accept annual gifts up to US\$500. Restrictions and exceptions vary considerably.

Legislation allows other reciprocities. For example, in 46% of the states, state legislators can accept food and beverages for immediate consumption. Similarly, in 22% of the states they can accept tickets and hospitality at social, sports, or charitable events. Official trips and lodging expenses are allowed in 34% of the states. The same pattern can be observed in the case of gifts of insignificant value, promotional items, and items for personal use such as medicines, newspaper subscriptions, and educational materials. Other gifts that create and strengthen long term bonds, such as honorary degrees, non pecuniary awards and honorary memberships are allowed in 19 states. These forms of recognition create bridges for future reciprocities in the same way as campaign financing and commercial loans.

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Based on Center for Ethics in Government (2006).

#### ***Suspicious campaign financing***

By suspicious campaign financing I do not mean illegal. Illegal electoral campaign financing is clearly illicit. In this case, the money is usually provided by mafias and illegal 30

groups such as drug cartels, guerillas, paramilitary organisations, smugglers, illegal traffickers and other types of criminals (Lee & Thoumi, 2003, pp. 71-93). Campaign financing may be legal but its consequences can lead to unlawful practices. That is, campaign financing can be given by national and/or international companies, trade and/or labour unions, and/or individual citizens who are seeking particular benefits. For Noonan (1984, p. 695) contributors provide electoral funding in a coactive way when they look for special attention and sympathy for a particular industry or sector or when they want to guarantee access to important persons or simply in order to get specific bills approved.

According to the International IDEA (2006) there are bans on certain types of donations in 61 of 207 countries (Table 5). In descending order, anonymous donations are forbidden in 46 of 207 countries, followed by foreign donations in 41 of 207 countries. In the case of funds from legal organizations, it is prohibited to be sponsored with money from government contractors in 27 of 207 countries, from private corporations in 22 of 207 countries and from trade unions in 17 of 207 countries. Finally, donations in kind are only banned in 4 of 207 countries. By and large, it is well-known that censorship exists in relation to funding from the business sector because this type of donor does not only provide altruistic funds to politicians, but also gives money that is expected to be reciprocated.

**Table 5. Bans on sources of donations to political parties in 207 countries**

Bans on source of income	Yes	No
Is there a ban on any type of donation to political parties?	61 countries (24%)	50 countries (20%)
Is there a ban on anonymous donations to political parties?	46 countries (18%)	66 countries (26%)
Is there a ban on foreign donations to political parties?	41 countries (16%)	73 countries (29%)
Is there a ban on donations from government contractors to political parties?	27 countries (10%)	86 countries (34%)
Is there a ban on corporate donations to political parties?	22 countries (8%)	93 countries (37%)
Is there a ban on trade union donations to political parties?	17 countries (6%)	98 countries (39%)
Is there a ban on donations in kind to political parties?	4 countries (1%)	110 countries (44%)

Source: International IDEA (2006).

Although it seems to be contradictory that legal campaign financing can lead to political corruption, Gambetta (2002, p. 53) has argued that this is not impossible because legal developments are also under the control of agents, who are not interested in preventing and sanctioning this standard type of crime. According to Pinto-Duschinsky (2002, p. 1) laws concerning campaign financing and party finances are a testimony to the failure of many existing systems of regulations, because scandals relating to the uses and abuses of different financial dimensions of the political process break out very often all across the globe. In this regard, Blechinger (2001, p. 5) has claimed that in Japan between the 1980s and 1990s, for example, the political parties spent between six and thirteen times more than was allowed by law.

Electoral campaigns are costly and politicians are tempted to spend much more than the limits allow them to. According to the International IDEA (2006), ceilings on election expenses are only imposed in 36 of 108 countries, whereas ceilings on how much money a candidate and/or a party can raise are only restricted in 18 of 108 countries (Table 6). As can be concluded from the Japanese case, the existence of regulations specifying ceilings does not guarantee that these ceilings are respected. As regards the disclosure of donors, parties and/or candidates are required to disclose the contributions they have received in only 47 of 108 countries, a figure which declines to 43 of 108 countries when it comes to disclosing total election expenditure. Thus the problem is not only one of a weak system of control and regulation as Pinto-Duschinsky has noted, but also one of the absence of such controls in many countries.

**Table 6. Some financial provisions applicable during elections in 108 countries**

Prescribed in law and regulations	Party restrictions	Candidate restrictions	Party and Candidate restrictions	Countries with restrictions
Ceilings on election expenses	2 countries (1%)	13 countries (12%)	21 countries (20%)	36 countries (35%)
Ceilings on how much money can be raised	1 country (0.5%)	6 countries (5%)	11 countries (10%)	18 countries (17%)
Public disclosure of contributions received	16 countries (15%)	3 countries (2%)	28 countries (27%)	47 countries (46%)
Public disclosure of election expenditure	10 countries (9%)	33 countries (32%)	25 countries (24%)	43 countries (42%)

Source: International IDEA (2006).

According to the data published by the American Non-Governmental Organization Open Secrets, private companies as well as associations have made financial electoral contributions in a suspicious way to both democrats and republicans (Table 7). In areas such as pensioners/retired, real estate, securities, business services, TV/movies/music, lobbyists, and computers/internet campaign financing was probably similar for both parties, which confirms the lack of ideological support associated with giving financial contributions, and therefore increases suspicions in relation to the interests that donors hold.

**Table 7. Campaign financing by industries in the USA elections of 2004 and 2006**

Rank 2006	Industry	Amount (millions dollars)	To DMS	To RPS	Rank 2004	Industry	Amount (millions dollars)	To DMS	To RPS
1	Lawyers/Law Firms	\$121,1	70%	28%	1	Pensioners/ Retired	\$184,0	46%	54%
2	Pensioners/ Retired	\$120,9	46%	53%	2	Lawyers/Law Firms	\$183,9	74%	25%
3	Candidate Cmtes	\$94,6	58%	42%	3	Candidate Cmtes	\$107,1	71%	29%
4	Real Estate	\$74,2	43%	55%	4	Real Estate	\$98,1	41%	58%
5	Securities/Invest	\$70,4	52%	45%	5	Securities/Invest	\$97,1	48%	52%
6	Health Professionals	\$54,4	37%	62%	6	Health Professionals	\$74,1	38%	62%
7	Leadership PACs	\$49,4	32%	68%	7	Business Services	\$42,4	56%	43%
8	Insurance	\$31,2	34%	64%	8	Education	\$37,0	78%	21%
9	Business Services	\$26,5	51%	47%	9	Insurance	\$36,4	32%	68%
10	Commercial Banks	\$26,0	38%	62%	10	Leadership PACs	\$33,5	29%	71%
11	TV/Movies/Music	\$24,1	64%	36%	11	TV/Movies/Music	\$33,2	69%	30%
12	Democratic/Liberal	\$23,9	98%	0%	12	Commercial Banks	\$31,1	36%	64%
13	Lobbyists	\$23,6	42%	57%	13	Computers/Internet	\$29,2	54%	46%
14	Oil & Gas	\$20,1	18%	82%	14	Lobbyists	\$27,7	48%	52%
15	Pharm/Health Prod	\$19,5	31%	67%	15	Oil & Gas	\$25,8	19%	80%
16	Education	\$19,3	71%	27%	16	General Contractors	\$25,7	24%	75%
17	General Contractors	\$18,9	28%	71%	17	Misc Mfg/Distrib	\$25,3	29%	71%
18	Computers/Internet	\$18,3	51%	47%	18	Civil Servants	\$20,9	56%	44%
19	Public Sector Unions	\$17,3	85%	14%	19	Automotive	\$20,3	22%	78%
20	Bldg Trade Unions	\$16,8	84%	16%	20	Publishing	\$18,9	69%	30%

DMS: Democrats. RPS: Republicans.

Source: Open Secrets (2006).

When electoral campaign financing seeks to achieve specific interests it can be said that these exchanges are bribes because the expectation of reciprocity creates strong links of dependency, which have to be reciprocated by the political leaders when they are in office. It is important to clarify that the question of whether or not the reciprocity

is received immediately is irrelevant, because it will be delivered either in the short or in the long term. What is important here is to state that reciprocities are paid back. It is only when the reciprocity is compensated that the bribery takes place, not before. No one can be convicted of bribery when he/she gives electoral funding, but only when the favours are delivered.

In the next chapter I will approach the problem of the reciprocity associated with campaign financing. In particular, I will use the gift theory of Mauss to demonstrate that reciprocity is always expected in the gift exchange. Therefore, it is not surprising that when political leaders are in office, they return special benefits to their electoral financial supporters. I am aware of interpretations that can be used to argue against this position by stating that something hidden cannot be proved and that it is therefore not illegal. For this reason, in chapter 3, I provide conclusive evidence to confirm my argumentation. I demonstrate that there is a significant relationship between political corruption and campaign financing based on a statistical analysis of data from 83 countries.

## 2. RECIPROCITIES AND CAMPAIGN FINANCING

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In this chapter, I study the exchange of reciprocities derived from campaign financing provided by institutions and/or private individuals to political leaders. Although this research does not use the ethnographic methods of participative research to study the character of campaign financing, a review of the theoretical concepts of gift exchange will provide important insights for the empirical study. According to Komter (1996 a, p. 8) there are different disciplinary approaches to gift exchange. Authors from the field of classical anthropology discuss the social functions of gift giving; social psychologists have focused on the communicative meaning of gift giving; and economic anthropologists have addressed questions regarding the rent-seeking nature of human nature. Komter claims that these different approaches have centred the debate on the *homo moralis*, the *homo symbolicus* and the *homo economicus*, respectively. For him, these theories have focused on agreeing or disagreeing with the idea of *homo generous* which is centred on the provision of disinterested help to human beings in distress. In this thesis, I use the economic anthropological perspective in a wider sense.

Throughout this thesis it has been argued that campaign financing is far from being a disinterested and altruistic activity. Nonetheless, in order to avoid biases and prejudices in relation to the real intentions of the provision of financial electoral support, I consider it important not only to understand the theoretical foundations of gift exchange but also to approach the four basic questions which according to Berking (1999, p. 4) lie at the heart of this issue. Firstly, what exactly is given as electoral campaign financing and who gives it? Secondly, what is the sequence of the giving and receiving of campaign financing? Thirdly, what are the motives of the giver and the receiver for adopting this type of exchange? Fourthly, what are the rules that govern this type of exchange? I hope that the exploration of these questions, which are related to the rather more blurred discussion of the role of campaign financing during elections, will place the real intentions of the electoral campaign funders in the eye of the storm. By employing this approach, the theoretical study of exchange reciprocities will move beyond the conceptual definitions and categorizations towards an applied use of these definitions and categorizations. Taking this interest into account, I have divided this chapter into two sections. Initially, the theoretical foundations of reciprocal exchange

will be presented and discussed with regard to their social function and their communicative meaning; in the second section of the chapter, these concepts will be applied to the case of campaign financing, on the basis of the view that such financing can be classified as a political gift.

## 2.1. THE SOCIAL FUNCTION OF GIFT GIVING

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The pioneering work of Malinowski, on the ceremonial exchange system in Papua New Guinea known as the *Kula* exchange introduced scholars to studying gift exchange. The *Kula* involves a customary, complex system of gifts and counter gifts between those who own valuable objects. The *Kula* ceremony takes place between thousands of individuals from eighteen islands in the Massim archipelago who meet after travelling hundreds of miles by canoe. During the *Kula* ceremony, northern island participants exchange shell-disc necklaces for shell armbands originating from the southern island. After some time, *Kula* valuables are circulating in a ring which implies that the original recipient cannot own the *Kula* values. Recipients only have the possibility to possess them temporarily, because the temporary possession of *Kula* objects is to bring prestige and status to the receiver. *Kula* values must return to the giver and they cannot be sold as commodities. *Kula* participants often struggle to hold particular *Kula* objects. Individuals interested in *Kula* valuables often offer goods or *pokala* to the *Kula*'s owner seeking to induce them to the *Kula* exchange. Moreover, the owner can demand gifts or *kaributu* from the receiver if he wants to be involved in such an exchange. Since more than 90 percent of the *Kulas* are controlled by the ten most influential men, *Kula* relationships are fragile and based on manipulation and disputes around the *Kula* exchange. Malinowski ([1922], 1970, p. 100) has said that the *Kula* system is based on strong social obligations that are not legally enforceable but culturally accepted.

Malinowski introduced the principle of give and take based on the study of the *Kula* ceremonial gift exchanges. He claimed that the nature of the social relations in which exchange takes place is what determines the nature of the gift. For him, gift exchange can be qualified as 'free-gifts', when the parties have close social relationships; but when the main interest is the exchange itself, the gift adopts the form of consumerism which is characterized by the idea of *quid pro quo*.

Malinowski's work has encouraged many influential scholars such as Mauss and Bourdieu to examine reciprocities. Mauss argued that under well socially articulated norms, gifts have to be accepted and reciprocated; therefore, there are no 'free-gifts' as described by Malinowski. For Mauss a pure gift is a contradiction. He argues that although gifts appear to be free and disinterested they are in reality constrained and interested because gifts are given in order to create and maintain social relationships (Mauss, [1950], 2004, p. 50).

By using a method of exact comparison with Malinowski's study, Mauss studied the gift exchange in two North-western North American tribes: the Tlingit and the Haïda. In these tribes, which are organized in hierarchical confraternities, individual and group behaviours are governed by a particular type of economic and legal system. The 'Potlatch' or what American authors denote as 'the costume' is for Mauss the most important type of contract that provides cohesion to the member of each family and clan. The 'Potlatch' obliges a person to reciprocate the gift that has been received. Mauss claimed that the essence of the 'Potlatch' is the *Hau*, which holds a spiritual, magical and religious force that destroys those individuals who fail to reciprocate ([1950], 2004, pp. 13-14). This implies that gifts circulate with the certainty that they will be reciprocated. In contrast to the *Kula* where the same *Kula* value has to be passed around, Mauss argued that in the 'Potlatch', the gifts exchanged are always different. He named as 'arrival-gifts' those that are given in an attempt to create a kind of link between the partners, while 'departure-gifts' are those made upon taking leave. This does not restrict parties from exchanging other complementary gifts in return for services such as hospitality and food. This continuous reciprocation creates a cyclical exchange process based on cultural traditions. The 'Potlatch' not only involves reciprocation, but also reveals the honour and wealth of the receiver who is willing to give back a symbolic compensation (Mauss, [1950], 2004, p. 83). Gift-giving, gift-receiving and gift-reciprocating are based on an old traditional moral foundation that provides evidence that individual motives are associated with specific interests. For Mauss gifts that are not reciprocated or refused are clear signals of deteriorated social relations, where the lack of trust destroys all sense of community.

The concept of reciprocity introduced by Mauss has split the scholarly debate on gift exchange across two concepts that have emerged as two sides of the same coin, namely: disinterested gifts and pure interested exchange. According to Parry (1998, p. 146) Mauss' gift exchange polarizes the ideology of exchange by contrasting gifts with exchanges and interests with disinterest. Theoretical biases relating to the alienability of gifts neglect the importance of the social and emotional dimensions of gifts. In this regard, Cheal (1988, p. 89) has argued that gifts should be considered redundant transactions in capitalistic societies because 'it is the moral economy of gift giving and of *the gift* that regulates gift behaviour' since gifts do not bring any advantage or well-being to the recipient. This implies that gifts are the result of the pragmatic tendency to make ritual offerings as an interactional courtesy.

In studies of the meaning of reciprocity conducted by Lévi-Strauss (1996, p. 19) it has been argued that the interests and motives that lie behind gifts are not always conscious. For Lévi-Strauss, gifts imply the transmission of goods which are not always reciprocated in terms of material goods. For example, gifts can be exchanged to acquire intangible benefits like status, prestige, influence over people or the exercise of power. Therefore, he argues, gifts should not be equated with commodities because gifts do not always bring about tangible benefits in the way that commercial transactions do. Lévi-Strauss emphasizes that Mauss formulated the gift exchange in terms of the relational logic of giving - receiving - returning, rather than in terms of the exchange itself as part of social life. He argues that gifts are attached to a great psychological aesthetic which provides evidence about the recipient's social bonds. This mystical interpretation by Lévi-Strauss clearly contradicts Mauss. In this regard, he states:

'Mauss strives to reconstruct a whole out of parts, and as that is manifestly not possible, he has to add to the mixture an additional quantity which gives him the illusion of squaring his account. This quantity is *hau*' (Lévi-Strauss, [1950], 1987, p. 55).

Firth (1967, p. 6) has also claimed that the *hau* does not imply the necessity of reciprocation because participants in this type of exchange ceremony do not have to give any extra items in order to continue with the custom of moving the same objects around. Therefore, it is the object itself that possesses the *hau*, not the persons involved in the exchange. Persons reciprocate by passing around the *hau* because the object received holds a unique character that is valuable. Nonetheless, if a person refuses to circulate the

*hau*, he/she would be considered a thief because the object is not for personal possession but for being exchanged. However, reality demonstrated that people did not take permanent possession of the *hau* because the temporal possession of the *hau* gave the holder prestige, and power originated from having been part of the exchange process. So, the *hau* holds a symbolic meaning rather than an economic value.

Sahlins (1972, p. 95) has also criticized Mauss' perspective by arguing that the idea of *hau* for Mauss is based on material rather than social terms. The material flow and reciprocal social relations induced Sahlins (1965, pp. 90-92) to propose three basic schemas of exchange, namely: generalized reciprocity, balanced reciprocity and negative reciprocity. In the first case, transactions are altruistic and voluntary, in the second case exchanges are expected to be reciprocated, while in the third case there is no reciprocity because exchanges are forced at the expenses of the other. I will describe the first two classifications because they represent polar opposites in which the exchange of campaign contributions can be analyzed.

Hospitality, help, and generosity, or what Malinowski called pure gifts, are representative cases of this first classification. Even so Laidlaw (2000, p. 632) has claimed that gifts are only free when they are anonymous, because in these cases the giver does not expect to get recognition and the receiver is not obligated to reciprocate. Laidlaw claims that the essence of free gifts is the impersonality derived from the anonymity that characterizes the exchange between the parties, rather than the altruistic intentions of visible givers, which annul the essence of the gift and the non alienable sense of the gift. Church charity and philanthropy are modern examples of free gifts because in these cases the giver is anonymous, and therefore the gift cannot be reciprocated. Although Laidlaw's argumentation is based on Derrida's approach to gifts, he claims that the paradox that characterizes the gift is the notion of the object itself and the relationship that the parties adopt in relation to it.<sup>11</sup> This implies that if the gift is not alienable, none of the social relations are derived from its exchange. The concept of

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<sup>11</sup> According to Derrida (1992, p. 16) a gift must fulfil four conditions to be considered free. First, non reciprocity must be returned in the exchange. Second, the recipient must not recognize the gift as a gift, so there is no sense of debt or obligation. Third, the giver must not recognize the gift as a gift, so for the donor own gratification and praise compensates the action of giving. Fourth, the gift should be perceived and received as a present and not as a retribution of previous exchanges

alienability is based on Gregory's idea of ownership rights, which is characteristic of market exchange. However, for Gregory (1982, p. x) gifts are based on kinship exchanges which are focused on strengthening social networks, while commodities are a method of consumption. This implies that they hold antagonist positions.

In the second case, Sahlins (1965, p. 119) refers to balanced reciprocity as a simultaneous exchange of goods of equivalent value. This type of exchange, which can also be called trade, is characterized by the obligation to pay the required amount for the object desired. Balanced exchange is less personal, more economic and demands short term reciprocities. The failure to reciprocate prevails in social relations and can also be demanded, because exchanges are made in a contractual framework. According to Sahlins many closed contracts are examples of balanced reciprocity, because they are embedded in unclear characteristics of solidarity as well as economic trade. It can be argued that balanced reciprocity corresponds better to the type of blurred exchange that lies at the heart of this research, rather than generalized and negative reciprocity in Sahlins's terms. For Sahlins, then, corporate alliances and peace-making agreements, and I would add campaign contributions, constitute some of the modern manifestations of this traditional form of exchange. The idea of fair trade is what gives an altruistic tone to these types of gifts. However, this is only an idea because in reality the exchange is followed by complementary activities around the main practice which inevitably has an effect on the way these closed contracts are perceived. This is in line with Goulderner's argument that political machinery frequently reciprocates or repays supporters for the services received, although these exchanges are not visible because they are not given immediately but in the future (Goulderner, 1960, p. 51). Although in ancient times the idea of reciprocating was not viewed as an illegal or immoral practice, what we today call bribery is an old practice of reciprocities. The main problem is that the social function of gifts appears in cultural contexts where the idea of reciprocity does not have any negative connotation of illegality.

The categorical differentiations proposed by Sahlins moved the debate towards the political motive that underlies the gifts exchange. Paradoxically, Sahlins likened Mauss' gift to Hobbes' Leviathan with the intention of demonstrating that the *hau* and the state are analogous forms of social contract. For Sahlins the gift exchange is a form of political contract that organizes society in a fragmented sense, rather than the corporate

contract which is held as a concept of the state. This abstraction concentrates on materialistic means, not on the persons' exchanges. In a dialectic way Mauss ([1950], 2004, p. 95) expressed that the gift exchange emerged as a response to overcome the condition of chaos and disorder that emerged during the Second World War. Consequently, the political character of Mauss' gift is focused on generalizing the material exchanges and it neglects the social side of economic exchanges.

For Sahlins the contractual character of the gift lies in the type of relation that is strengthened. Reciprocity implies a 'between' relation, where what is most important is that the gift brings together the interests of givers and receivers. For this reason, when the exchange is perfectly reciprocated there is no fear and hostility between givers and receivers. So, gifts only affect people's wills, not people's rights. According to Sahlins, Hobbes and Mauss share the concept of gratitude, the perfect connection between these two types of contracts. Gratitude or the fourth law of nature is normally understood in terms of a correspondence to a previous 'free-gift'. This way of appreciating the gift exchange implies reciprocity.

Under the umbrella concept of balanced exchange introduced by Sahlins, scholars have explored alternative dimensions of gifts in an effort to explain the exchange process as part of an ethically vulnerable exchange which focuses on the motives of gift exchange rather than the process itself (Schwartz, 1967, p. 70). Considering that the focus in this thesis is on campaign financing viewed as a political gift given during elections, it is important to explore the communicative meaning of gift giving in an attempt to understand the role that this type of exchange has on politics. This will be attended to in the next section.

## 2.2. THE COMMUNICATIVE MEANING OF GIFT GIVING

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A more detailed observation of the different levels of altruism that can be observed in the gift exchange can be conducted by examining the psychological motives behind gift giving. Some studies have focused on the motives for gift giving in modern Western societies. In 1970, an empirical study of blood donation in England and the US

demonstrated that voluntary blood donation represents the archetypal ‘free gift’; although there is always a hidden ‘delayed reciprocity’ expressed in the giver because he/she expects to receive from others in return when he/she needs to (Titmus, 1970). In 1982, a study of Christmas gifts in the US conducted by Caplow revealed among other interesting findings that people tend to give gifts to relatives and acquaintances, and even to unfamiliar people not primarily because they feel empathy towards them but because they are interested in maintaining social relationships.<sup>12</sup> In 1984, Pahl’s study on the importance of reciprocity also concurred with these findings. Pahl (1984) also showed that for American households, reciprocity is important because the exchange usually takes place between individuals who are rarely able to reciprocate with others. In 1992 a piece of research conducted in Amsterdam on the psychological motives behind gift exchange revealed that there is a feeling of unbalance in gift receiving, which is mainly explained by the unreciprocated expectation of reciprocity.<sup>13</sup> In line with the previous research, the study also found that those who receive more are those that are in strong position of reciprocating rather than those who are in economic difficulties or who suffer from health problems. Surprisingly, it was also found that some givers have strong altruistic motives for giving which are associated with the moral obligation and the moral criterion of need; such is the case of gift exchange between close relatives. Nonetheless, the general balance in society at large remains negative. In other words, gifts have not been reciprocated as they were supposed to be.

Beyond the psychological motives that have revealed the dualism embedded in the gift exchange, Goulderner (1960) argues that the idea of altruism is implied in the real motives of the gift exchange. Explaining gift exchange as a form of altruism differs from the traditional idea of equivalence that associates gifts with reciprocal motives. When

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<sup>12</sup> The study also showed that women are more active givers than men. Women received only 61% as many gifts as they gave to others, whereas men received 81% in contrast to the 16% given (Caplow, 1982). In another study conducted by Cheal in 1988 the same tendency was founded. Cheal showed that in relation to Christmas and weddings gifts the women are the greatest givers in an attempt to maintain social contacts (Caplow, 1984).

<sup>13</sup> This situation can be explained by several reasons. Firstly, there is the role played by memory, which leads to the conclusion that people have a greater awareness of what they have given, than of what they have received from others. Secondly, there is the existence of a perception bias which tends to create the self image of a great giver, in contrast to the underestimating perception which exists in relation to the reciprocity demonstrated from the receivers. Thirdly, some gifts are not recognized as such because they tend to be considered part of the normal social relationship, as is the case in relation to the care and help provided by a relative (Komter, 1996, pp. 115-119).

the gift exchange is truly altruistic, parties give more than they receive, which is expected because the action of giving is encouraged by self-sacrifice. For Schmidtz (1993, p. 165) altruism involves self-sacrifice and it is based on trust and to some extent empathy. However, Goulderner (1960, p. 57) has argued that giving behaviour is encouraged by selfish feelings because the action of giving is used to relieve the conscience rather than to ameliorate other peoples' conditions. For Sen (1979, p. 150) altruism is no more than a sympathetic action in favour of the less well-off because it does not encourage long term commitment to produce an effect on the people's living conditions. This puts altruism in a similar situation to the exchange because in altruistic exchanges reciprocity comes from the inside, which compensates the external motive for giving. In this respect Bourdieu (1990, p. 136) has claimed that the gift exchange is just a strategy that is purely speculative and is characterized by the lack of autonomy and dependence between the parties involved. For Bourdieu (1977, p. 5) the gift exchange is an inevitable process, because the donor's exercise of power is achieved when the recipient's obligation to reciprocate is recognized and not reciprocated immediately, but in the future. He states that if the recipient reciprocates immediately the truth of the exchange is destroyed and the desired effect of the gift as a strategy is lost.

In sum, the communicative meaning that characterizes the gift exchange has a dual character. On the one hand, there is a free gift intention that justifies the gift exchange, but on the other hand there are also material and social interests associated with such an exchange. What is interesting to note is that the economic inability to initiate and reciprocate exchanges with others is associated with the idea of the exclusion of the weak, which has important implications for this research. We might assume, for example, that organizations who do not contribute to electoral campaigns are likely to be excluded from the network of receivers when the leaders are in office; collateral exclusion might also be observed, however, among contributors who are motivated by altruistic and ideological considerations by comparison with those who only provide electoral support for the purpose of seeking economic and social benefits.

There are serious concerns suggesting the urgency of an exploration of the real motives and intentions that are held by political leaders as well as rent-seeking

contributors, politically-oriented contributors and non-campaign contributors. The scholarship has focused on understanding personal gift exchange in either modern or traditional societies, but no attention has been paid to the exchange of financial contributions during elections. For this reason the next section presents an analysis of campaign financing as a political gift.

### **2.3. CAMPAIGN FINANCING AS A POLITICAL GIFT**

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In terms of the concept of balanced reciprocity introduced by Sahlins, it can be argued that the idea central to, or the essence of, the political gift emerges when we focus on the ambiguity associated with its presenting characteristics of both 'free-gift' and commodity. This dilemma locates political gifts in a position of uncertainty because they are neither considered as proper 'free-gifts', nor as proper commodities. Based on this argument, I proceed to analyze the 'voluntary' exchange of political gifts and their convertibility to job appointments, contracts and other political favours. However, if we analyze campaign financing based only on the objects exchanged, it is risky to conclude that there are no irregularities in this process just because political leaders do not reciprocate them in the short term. As Berking (1999) has argued, the one-dimensional approach introduced by Mauss and Malinowski has not been beneficial to any complete understanding of these practices because it constrains the analysis to the objects and ignores the process in which they are given. The following sections therefore examine the complementary dimensions proposed by Berking.

#### ***Campaign financing as a political gift and the giver***

Campaign financing can take different forms. Firstly, party members can give contributions through membership affiliations. Secondly, there is also money coming from the candidate and the candidate's family which can be labelled as private funds. Thirdly, there is also money received through financial institutions and private credit. Fourthly, there are financial dividends generated by personal and party investments. Fifthly, additional money is provided to campaigns which originate in the state's reposition of votes after the elections. Sixthly, there are also donations given by

individuals and/or organizations who are not affiliated with the political party but who agree to support the candidate. Seventh, there is additional money collected at public activities or events where the participants agree with the party program and the candidate's orientation but do not have a direct role in the political party. Finally, there are in-kind contributions which correspond mainly to logistic support in the form of goods, food, transportation, access to facilities and advertising intended for use while the political leader is campaigning.

It may be assumed that not all these forms can be explained under one homogeneous category. In the first case, campaign financing is embedded in ideological arguments; therefore, it is possible to associate it with a 'free-gift'. Cases two to five correspond to external forms of financial support which are related to administrative procedures. Therefore, they are simply commodities which are exchanged at the time of elections. The last three cases (donations, revenues from political events and in-kind donations) correspond to the type of political gifts that I am studying in this thesis. In these three cases it can be argued that they are embedded in the idea of *quid pro quo* for the following reasons: Firstly, electoral financial contributions are not given in an anonymous way. Usually, laws stipulate that contributors should be registered with the purpose of promoting transparency and accountability. However, the effect produced by this measure is in fact the opposite. Contributors are registered and their names disclosed but no follow up of the subsequent benefits given to campaign funders has ever been undertaken. This only strengthens cynics among donators and leaves the 'noble intentions' of the regulations to prevent political corruption open to ridicule. Secondly, campaign financing is not an altruistic activity because donors tend to give financial support to different candidates and parties simultaneously. This evidences a lack of ideological alignment with a particular political cause. Thirdly, there is a 'delayed reciprocity' in the exchange of electoral financial support. For campaign funders of this kind, it is clear that different types of compensation will be forthcoming in return when the political leaders are in office. Fourthly, the most generous campaign funders are those who receive most benefits, in contrast to those who offer their support with scarce resources. The reason is obvious: those contributors in a strong position to reciprocate are the ones that get the most benefits. For example: big corporations and organisations

can receive favourable laws and tax exemptions in contrast to the benefits (if they are) received by a housewife who believes in the political leader and gives small amounts of money to his/her electoral campaign.

In the analysis of the last three categories it emerges clearly that the main problem not only resides in the objects exchanged but also in the character of the exchange process. The sequence of giving and receiving campaign financing, the rules that govern this exchange and the motives of givers and receivers are presented and discussed below.

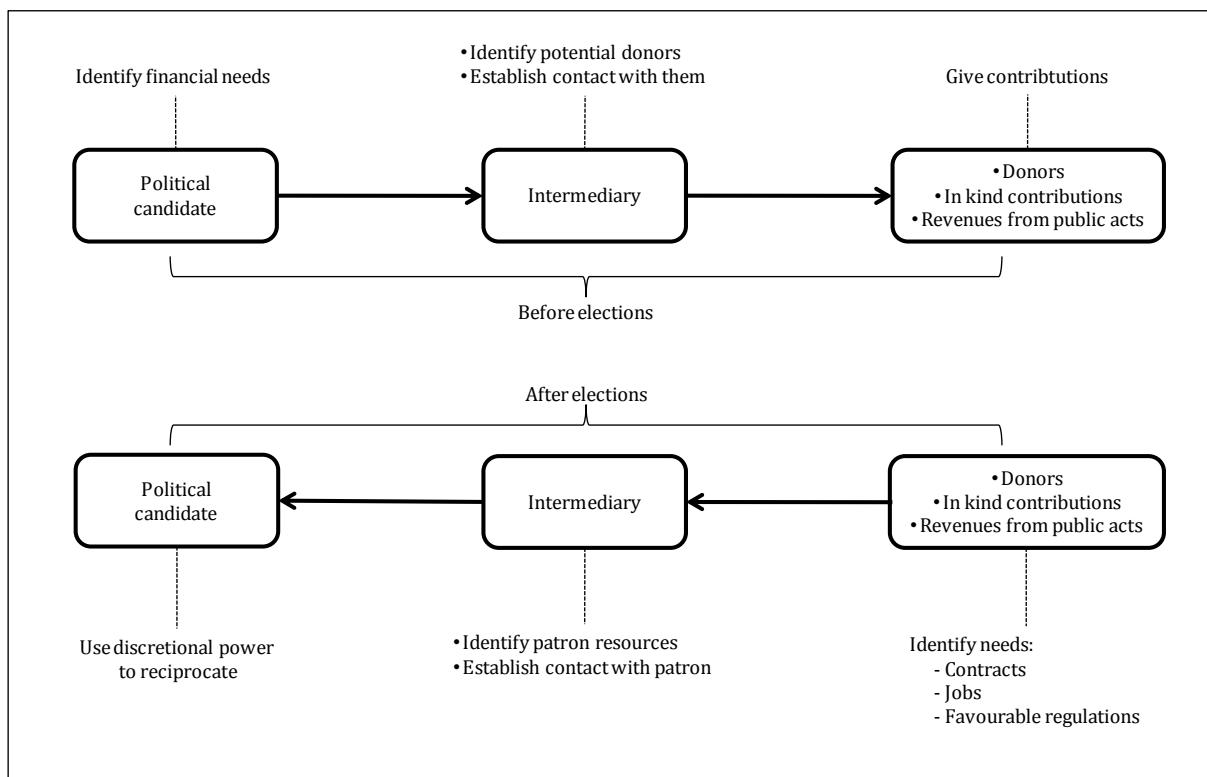
### ***The sequence of giving and receiving campaign contributions***

The exchange of campaign financing does not follow the same pattern of reciprocity that Mauss revealed in his studies. Campaign financing circulates through a mediated reciprocal exchange network, in which donors, agents and party leaders are present. In Figure 1 it can be seen that the process starts with the identification of the financial needs of the campaign. Then, specific tasks are assigned to certain persons in order to obtain the necessary resources. As Diaz (1986) has argued, contacts are established through a third person, who has the role of fiduciary in Gambetta's (2002) terminology. This person constitutes the link between the campaign and potential contributors. Contributors can be identified from a list of state contractors or particular companies that receive privileges from the state through beneficial regulations. Common to these potential candidates is that they are in a weak position which places them in a situation of incapacitation and dependency on the politicians because their business activities rely on the state's decisions and contracts. This means that potential contributors have to or are forced to give the money demanded by the fiduciary. When leaders win the election and are in office, the process is reversed. Contributors demand compensation for their generosity. This means that they verbalize their own needs, which are made known to the mediators, who have the role of communicating this information to the political leader. This occurs because the mediator knows who has contributed and how much has been given. The political leader in office brings to bear his/her power to compensate his/her campaign funders through the delivery of specific favours. In this way the cycle

is completed and thus reciprocities are given. This represents a gain-gain relationship mediated through an agent.

This description concurs with Titmus' (1970) and Bourdieu's (1977) arguments in the sense that reciprocities are not always given immediately. When a contribution is given, it is implicitly known that compensation will be delivered. Contributors believe in 'delayed reciprocity'. This occurs because the roles of the political candidate and the contributors are switched once the electoral campaign is over; however, they still use the same intermediary to communicate and achieve their needs. The existence of the intermediary figure is what gives the feeling of being involved in a political corrupt network as has been stated by Della Porta (1997) and Gameda (2002).

**Figure 1. The sequence of giving and receiving campaign contributions**



### ***The motives***

Electoral campaign financing is not always exchanged with those with whom there exists an ideological identification or empathy, as has been argued by Caplow (1984). I

want to use two cases to illustrate that campaign financing is not always given on the basis of genuine interests. For example, when a private company simultaneously gives contributions to different candidates, as was observed in Table 5, it can be stated that it is not altruism that motivates their political support because no account is taken of political ideology. As Goulderner (1960) and Schmidtz (1993) have argued, a genuine interest in guaranteeing future benefits is obviously the main motive. Therefore, this type of contribution is nothing less than an anticipatory bribe. If we take a less extreme example where a company is simply asked for financial support, we face a similar problem. If the company refuses to give the financial contribution, severe measures will be taken against the organization such as not appointing contracts or eliminating them from the list of institutional providers. Therefore, manipulation and a lack of autonomy characterizes the exchange of this type of financial contribution.

These two examples contradict the idea of 'free-gifts' introduced by Malinowski ([1922], 1961) in the sense that in the exchange of campaign financing, the exchange is governed by hidden interests. However, in the case of small contributions made during public events, it has been argued by Ansolabehere, de Figueiredo and Snyder (2003) and Campante (2006) that the exchange is altruistic and represents ideological support. Nonetheless, I believe that this is merely a justification because in modern electoral systems, all kind of contributors must be registered and consequently, as Laidlaw (2000) has argued, when donors are no longer anonymous, their gifts can be reciprocated.

### ***The rules***

The existence of laws and regulations on contribution ceilings, bans on certain types of donation and the disclosure of contributors by and large constitutes the only restriction that applies to all candidates involved in the electoral process. Under these regulations, the exchange of benefits is unthinkable. However, Gudeman (1998) has argued that the object of exchange is not what lies at the heart of the exchange but rather the sense of community and the social context in which donations are given. Donating electoral financing is nothing more than an expression of an implicit compromise between state contractors and political leaders which is created under clientelistic relationships of

mutual dependence. One of the characteristics of clientelistic networks is the lack of written agreements and regulations, because these are implicitly known and accepted (Eisenstadt & Roniger, 1981). Since clientelism lies at the heart of the political corruption problem, it is not surprising to find that it is the implicit clientelistic rules that actually govern the exchange of electoral campaign financing and not those rules prescribed in electoral codes. In consequence, formal regulations clash with the clientelistic rules that are adopted by custom, which creates nothing other than confusion and presumably a sense of being part of a system based on moral double standards.

In sum, as Berking has argued, the study of gift exchange beyond the object itself can reveal the real character of such an exchange. In the case of campaign financing, it is important to say that the exploration of the categories proposed by Berking has demonstrated the existence of hidden elements intrinsic to this practice: first the process whereby it is obvious that there is a delay in the reciprocity delivered; then the lack of anonymity which eliminates any guarantee of the presence of altruistic motives; and finally by arguing that it is implicit clientelistic rules that govern the exchange in this practice. In sum, the theoretical review of gift exchange seems to indicate that giving electoral campaign financing is in fact a practice which is expected to be reciprocated. In the next chapter, I will provide conclusive evidence to this effect.

### **3. BEYOND CAMPAIGN CONTRIBUTIONS**

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In this chapter I focus on providing evidence to confirm that campaign financing is one of the forms of political corruption. As I have previously mentioned, this thesis employs cross-country comparisons to demonstrate that campaign financing is highly correlated with political corruption. I begin this chapter with a review of some of the studies that have used cross-country comparisons to identify different causal dimensions of the political corruption problem. In the framework of this description, I introduce the scholarly contributions related to campaign financing. Then, I discuss a number of methodological issues regarding the variables included in my analysis and also my data sources. In the final section, I present and discuss the statistical results, which I consider to constitute the major contribution of this thesis.

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#### **3.1. THE METHOD: CROSS-COUNTRY ANALYSIS**

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Cross-country analysis has widely been used to identify the macro determinant causes and consequences of political corruption, as well as for evaluating the quality of the regulatory actions taken to control this phenomenon. The basic assumption shared by scholars who use cross-country analysis is that political corruption is a rent-seeking activity in which various parties interact to maximize their income by mechanisms outside of the law (Rose-Ackerman, 1975, p. 77). In this research, I employ the same assumption.

According to Lambsdorff (2006, p. 3) scholars have used cross-country comparisons extensively to demonstrate that political corruption is caused by a large number of factors. For example, in some cross-country analyses it is argued that the presence of abundant natural resources such as fuel and minerals creates opportunities for political corruption (Ades & Di Tella, 1999, p. 990; Gylfason, 2001, p. 574). As regards the location of different countries, Gerring and Thacker (2005, p. 243) have found that political corruption is more often present in countries located around the equator and those lying at a great distance from main trading centres (Ades & Di Tella, 1999, p. 990). In the same vein, Sandholtz and Gray (2003, p. 780) have found that countries characterised by political corruption are surrounded by partners with similar

levels of political corruption. Treisman (2000, p. 418) and Swamy et al. (2001, p. 12) have found that the most corrupt countries have a colonial heritage.

As regards the limitations that cultural variables have on controlling political corruption, it was found through cross-country analysis that it is more likely that political corruption will emerge and become consolidated in countries with hierarchical religious and ethnographic factions (Treisman, 2000, p. 436), for example, and in those where women play a limited role in the labour force and in parliament (Swamy, Knack, Lee, & Azfar, 2001, p. 18). In studies focused on the impact of the distribution of power, it has also been demonstrated that political corruption is more likely to be found in countries where power is distributed unequally (Husted, 1999, p. 343; Robertson & Watson, 2004, p. 392).

A number of cross-country studies have also claimed that bad regulations create corrupt incentives for private actors who want to maximize their income. Scholars have demonstrated, for example, that higher market entry barriers (Broadman & Recanati, 1999, p. 15), long procedures and high official costs (Djankov, Fredriksson, & Mani, 2002, p. 26) all increase the risk for political corruption. Similarly, scholars have found that the more open a country is, the less corruptly it behaves (Sung & Chu, 2003, p. 155). This is well-established for example in the case of countries that are part of major international organizations such as the United Nations, The World Trade Organization, and the International Monetary Fund (Sandholtz & Gray, 2003, p. 41), as well as in countries with higher international telephone minutes per capita and higher levels of air freight per capita (Gerring & Thacker, 2005, p. 250).

As regards the political arena, scholars have used cross-country analysis to demonstrate that the degree of political corruption in a country varies according to the level of democratic consolidation (Paldam, 2002, p. 225) and the number of years of exposure to democracy (Treisman, 2000, p. 419). It has also been widely discussed that political corruption decreases in democratic nations with high levels of electoral participation (Adsera, Boix, & Payne, 2000, p. 35). Comparisons across different countries have also found that presidential systems tend to be more corrupt than parliamentary systems (Panizza, 2001, p. 334; Kunicová & Rose-Ackerman, 2005, p. 596) and that unitary systems tend to be more corrupt than federal ones (Gerring &

Thacker, 2004a, p. 19). Persson et al. (2003, p. 21) have also reported that there is more political corruption in countries where the members of parliament are elected from party lists than in those where they are elected as individual candidates. Additionally, it has been observed that the size of electoral districts and the type of electoral list appear to play an important role in containing political corruption. In this regard, Chang and Golden (2004, p. 17) have demonstrated that in the case of large voting districts, closed-lists help to reduce political corruption.

As regards campaign financing, cross-country analysis has been used to demonstrate whether or not campaign financing affects policy outcomes. It is worth noting that most of these types of studies are based on comparisons conducted at the national level due to the lack of availability of worldwide data. For example, in studies conducted in the United States, scholars have found that the Political Action Committees (PACs)<sup>14</sup> are not driven by ideological motives. This was the case in the Congressional elections of 1994, where PACs shifted the direction of their contributions from Democrats to Republicans after the Republicans took control of Congress (McCarty & Rothenberg, 2000, p. 302). In the case of the New York City elections of 1998, Fuchis et al. (2000, p. 479) found a similar situation. Big firms switched their support in favour of candidates that led the public opinion polls in order to guarantee that their investment would be compensated. However, this lack of loyalty and the lack of continuous support among some contributors was not well received by the parties and their members. McCarty and Rothenberg (1996, p. 872) have established that contributors who did not give continuous support to members of the lower chamber in the U.S. election cycles of 1993-1994 and 1995-1996 were punished by the party politicians.

Comparative studies conducted at the level of the firm have also revealed that giving financial electoral support returns substantial tangible benefits to supporters. In a study conducted in Brazil to evaluate the benefits received by firms as a result of political connections, Claessens et al. (2007, p. 21) have reported that Brazilian firms which gave financial contributions to political leaders in the 1998 and 2002 elections, substantially increased their bank leverage after each election by comparison with the

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<sup>14</sup> PACs are private groups created on behalf of the special interest. PACs can receive and raise money from the special group's constituents and then make donations to political campaigns.

control group. This represented higher stock returns for these firms. A similar connection was reported in the case of firms that provide nuclear power in the United States. Based on a study of 63 private nuclear plants between 1994 and 2002, Gordon and Hafer (2005, p. 258) found that the national authority reduced its inspections at nuclear plants whose operators made large contributions to political campaigns. They have also revealed that private nuclear operators made fewer political contributions when a mandatory inspection was expected by the national authority. However, well-connected firms can also suffer as a result of their complex relationships with the government. According to Fisman (2001, p. 1096), firms in Indonesia that are closer to the government are more sensitive to government problems because of the dependence resulting from the large amounts of money they have devoted to rent-seeking activities. This means that the higher the level of government instability, the lower the level of profitability at these well-connected firms by comparison with less-connected firms.

In spite of these revealing data at the national and the firm level, some scholars have also provided evidence to demonstrate that small personal contributions do not constitute interested money because they are given in order to provide ideological support to the candidates of preference. In this regard, Ansolabahere, de Figueiredo, & Snyder (2003, p. 125) have claimed that in the United States both small individual donors (those that contribute with an average of US\$ 100) and PACs contribute with similar amounts of money to both the lower and the upper house. Because small donations are anonymous, it is expected that it is purely ideological identification that motivates the donors and no other specific interest, in contrast to PACs. In the same sense, Eom and Gross (2007, p. 695) have argued that the introduction of ceilings to contributions has a positive effect on democratizing elections because candidates have to rely on a large number of small contributions which are driven by ideological motives.

This polarization in the scholarship seems to suggest the idea that the size of donations steers the intentions, which is in itself suspicious. Although political corruption can adopt different modalities, as has been claimed in the first chapter of this thesis, it cannot be argued that a certain illicit activity can be called political corruption based on the intensity of the reciprocal exchange. Borrowing the idea introduced by Scott (1969, p. 66) it cannot be argued that an illicit act is sometimes political corruption

and sometimes not. Here, I claim that small and large contributions both constitute representations of political corruption because they are given in order to achieve specific purposes, either ideological or personal. What matters is not the amount given, but the exchange of this type of contributions in itself, as has been argued in this thesis. Since the relationship between campaign financing and political corruption has not been studied worldwide, I propose to explore the following hypothesis in the cross-country analysis:

H1: *Legal campaign contributions bring about political corruption.* I expect to find less political corruption in countries where the legal campaign financing has little direct influence on public policy outcomes.

H2: *State campaign financing reduces political corruption.* I expect to find that in countries where elections are funded with public resources there is less political corruption.

H3: *Ceilings on campaign contributions and expenses prevent political corruption.* I expect to find less political corruption in countries where regulations impose ceilings on campaign contributions and expenses.

H4: *Public disclosure of contributions and expenditures prevents political corruption.* I expect to find less political corruption in countries where there is public disclosure of contributions and expenditures.

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### 3.2. THE VARIABLES INCLUDED IN THE MODEL

In chapter 1, I discussed that defining political corruption is a complex task. In this section, I could add that the operationalization and measurement of this phenomenon constitutes an even more difficult task. The gap between the dialectic definitions developed by scholars and the variables used by different organizations to quantify political corruption is well-known and deserves special attention. In the following section I describe some of the alternative measurements of political corruption that are currently on the market and their main limitations. In particular, I focus on describing the proxy variables used to measure political corruption, as well as the independent variables and the control variables which I use in the model.

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### 3.2.1. THE DEPENDENT VARIABLE: PROXIES OF POLITICAL CORRUPTION

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Information on political corruption has recently been provided by a substantial number of sources. In macro-studies on political corruption such as this one, scholars have to rely on the available data collected by risk agencies, survey firms and the aggregate indexes produced by certain international organizations despite their limitations.

By and large, it can be argued that risk agencies and survey firms are interested in measuring the overall impact that political corruption has on the investment climate and on economic growth. Today, at least five risk agencies provide worldwide information on political corruption. Usually, these agencies employ similar standardized methods for collecting this type of information, which is based on the assessments of internal experts. These experts live permanently in the country they have to assess. The Economist Intelligence Unit (EIU),<sup>15</sup> the Political Risk Services (PRS)<sup>16</sup> and the Merchant International Group (MIG)<sup>17</sup> publish a monthly measurement that captures the overall extent of the political corruption problem. At all three agencies, political corruption is measured by a single question. Nonetheless, there are some differences between them. In particular the EIU measures the corruption level among public officials, whereas the PRS and the MIG both concentrate on measuring corruption within the political system. It is worth noting that the PRS is the only risk agency that specifies exactly the type of practices measured (Bribery, patronage, job reservations, 'favours-for-favours', secret party funding, and suspicious ties between politics and business), although the information is provided in the form of an overall index. In the case of the EIU, the evaluations are produced through the agency's internal network of over 500 correspondents in 195 countries, while the PRS covers 161 countries and the MIG 156 countries.

Other political corruption practices have also been measured by different risk agencies. This is the case with the Global Insight Risk Service (GIRS)<sup>18</sup> which estimates the corruption costs imposed on private firms when dealing with the government, for

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<sup>15</sup> More information is available at: <http://www.eiu.com>

<sup>16</sup> More information is available at: <http://www.prsgroup.com>

<sup>17</sup> More information is available at: <http://www.merchantinternational.com>

<sup>18</sup> More information is available at: <http://www.globalinsight.com>

example, while the Business Environment Risk Intelligence (BERI)<sup>19</sup> evaluates the diversion of public funds. Beside the efforts of GIRS and BERI to measure other forms of political corruption, the practices covered by these two agencies are still limited. In addition, these risk agencies base their indexes on the opinion of their internal experts (in 142 and 50 countries, respectively) as the only source of information, which also raises doubts about the quality and reliability of the information collected.

In sum, the main limitation observed in the political corruption measurements provided by risk agencies is that the information on political corruption does not account for any particular misconduct or criminal offence. In other words, it only makes reference to an abstract construct, which is not clearly specified in most of the cases. This of course is problematic because the usefulness of the information is constrained despite the efforts to provide a globally standardized method to collect it. Additionally, the evaluations based on the assessments of internal experts have shown themselves to suffer from limitations as regards capturing the day-to-day phenomenon of political corruption, since this phenomenon is not disclosed and discussed in the media; therefore it is rarely known to 'elite' experts of this kind.

Information on political corruption based on surveys attempts to overcome the difficulties that characterize the measurements based on risk ratings. In surveys, informants are asked about particular forms of political corruption. The biggest and most systematic survey focusing on, among other issues, the problem of political corruption has been conducted annually by the World Economic Forum (WEF) since 1996. In 2008, the WEF conducted the Global Competitiveness Survey (GCS)<sup>20</sup> among 94 Chief Executive Officers and top-level managers in 131 countries. In the GCS, political corruption is measured along four dimensions, namely: the diversion of public funds, bribery, favouritism in the decisions of public officials and the impact of legal and illegal campaign contributions made to political parties. Considering that the diversion of public funds corresponds to other forms of administrative misconduct, as I argued in Chapter One, I would like to note that the main limitation of the information collected through the GCS is the information provided by the informants. In the GCS, respondents

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<sup>19</sup> More information is available at: <http://www.beri.com/>

<sup>20</sup> More information is available at:  
<http://www.weforum.org/en/initiatives/gcp/Global%20Competitiveness%20Report/index.htm>

report their perceptions but they do not report direct experiences or involvement in corruption cases, which partially undermines the reliability of the information collected.

Other surveys also provide information on political corruption. In the Gallup World Poll (GWP)<sup>21</sup> informants from 140 countries have been asked since 2006 how widespread corruption is in the government? This question is posed together with 600 others relating to a variety of different issues in order to evaluate the progress towards achieving the Millennium Development Goals. In countries where 80% or more of the population has landline phones, the survey is conducted by telephone; in developing countries a face-to-face interview is used. As was also pointed out in the case of risk agencies, the GWP is neither clear as to what forms are evaluated by the informants as constituting political corruption, nor as to whether the information provided is based on real cases or just on perceptions of the problem. These are the main limitations of the information collected in this particular case.

International organizations have also collected systematic data through face-to-face interviews with business managers and owners, but their country coverage and frequency is more limited. The Business Environment and Enterprise Performance Survey (BEEPS),<sup>22</sup> which is a joint effort of the World Bank and the European Bank for Reconstruction and Development, surveys managers and owners of more than 20,000 firms across 26 countries of Central and Eastern Europe, the former Soviet Union, and Turkey. The BEEPS was first conducted in 1999 and was replicated in 2002 and 2005. In the BEEPS, political corruption is assessed in the form of unofficial or additional payments/gifts to members of regulatory agencies, public service providers, state contractor companies, members of parliament, the courts and high-level government officials. As in other surveys, the BEEPS aggregates information based on common indicators because it is built on a standardized questionnaire. In the BEEPS firms are not asked about their perceptions of the different problems, but about hypothetical cases or situations. This is intended to capture the real behaviour of the firms surveyed under the assumption that they tend to qualify other firms in the same way as they would act themselves; but there is no guarantee that the information revealed is accurate. Despite

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<sup>21</sup> More information is available at: <http://www.gallup.com>

<sup>22</sup> More information is available at: <http://info.worldbank.org/governance/beeps/>

its limited coverage, the BEEPS is considered by experts to be one of the most reliable sources for data on political corruption.

In late 1999 and early 2000, the World Bank also applied the World Business Environment Survey (WBES)<sup>23</sup> to more than 10,000 businesses in 80 countries. The WBES investigates the investment climate and business environment and generates additional measurements in such areas as corruption, the judiciary and lobbying. The data on political corruption makes reference to the 'state capture'<sup>24</sup> of the parliament, presidential decrees and court decisions, as well as bribery, patronage and the effects of contributions to political parties. In contrast to other measurements, this survey explores the phenomenon of political corruption in the most comprehensive way because it reflects both its political and administrative dimensions. Unfortunately, its coverage is limited and it has not been updated.

Finally, I want to refer to aggregate indexes. Composite indexes are based on polls of polls and attempt to overcome the difficulties and limitations of the measurements produced by risk agencies and the global surveys. The general idea is that aggregating different sources reduces biases originating from the preconceptions of experts and the limited experience of the informants. In 1995, Transparency International was the first organization to produce aggregate information on political corruption through its Corruption Perception Index (CPI). Then, in 1996, the World Bank Institute launched its first version of the Governance Index, which is a composite index comprising six aggregate sub-indexes, one of which is focused on political corruption (the Graft index). In 2002, the United Nations presented the index of organized crime (OCI) which is also based on the aggregation of five indexes, including high-level corruption and street-level corruption (van Dijk, 2008). In this research, I use both the CPI and Graft indexes as proxies of political corruption because I consider that these two indexes approach this problem in a better manner. The main limitation of the OCI is that the information has not been updated since its release, although efforts have been made to conduct a victimization survey to measure bribery at the street-level. Considering that I use the

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<sup>23</sup> More information is available at: <http://info.worldbank.org/governance/wbes/>

<sup>24</sup> Hellman et al (2000) have coined the term 'state capture' to denote firms shaping and affecting formulation of the rules of the game through private payments to public officials and politicians.

latest available data from 2008 in my model, the use of non-updated data will introduce synchronicity problems. Below, I present and analyze the Graft and the CPI indexes.

### ***The Graft Index***

The Graft index was developed by Kaufmann, Kraay and Mastruzzi to measure 'perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as capture of the state by elites and private interests' (Kaufmann, Kraay, & Mastruzzi, 2008, p. 8). The Graft index is a composite index which is expressed on a continuous numerical scale that ranges between -2.5 and +2.5. The global mean of the Graft index is placed at zero. A margin of error and the number of sources used in the index are also provided for each country.

In 2008, the Graft index aggregated information from nine different sources:<sup>25</sup> BERI S.A. (BERI), the Global Insight Risk Service (DRI and WMO), the Economist Intelligence Unit (EIU), the Gallup Organization (GWP), the French Ministry of the Economy, Finance and Industry and the Agence Française de Développement (FG), the Merchant International Group (MIG), the Political Risk Services (PRS), and the World Economic Forum (WEF). The information provided by the different sources on which this index is based focuses mainly on reporting the existence of bribery and the overall extent of political corruption. Some of the other forms of political corruption that are taken into consideration are: trading in influence, the diversion of public funds, red tape, an estimation of the losses and costs of companies due to political corruption and the honesty of politicians. In Table 8, these forms of political corruption are linked to their respective sources of information. The latest version of the Graft index was based on information collected through the assessments of internal experts (BERI, DRI, EIU, FG, MIG, PRS, WMO) and surveys among firms (WEF) and households (GWP). Therefore, it can be argued that this information is based on the opinion of the informants and not on their direct experiences or on a review of judicial cases.

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<sup>25</sup> Sixteen other sources were tested and excluded through a cluster analysis.

**Table 8. Concepts measured in the Graft index and sources of information**

	<b>BERI</b>	<b>DRI</b>	<b>EIU</b>	<b>FG</b>	<b>GWP</b>	<b>MIG</b>	<b>PRS</b>	<b>WEF</b>	<b>WMO</b>
Bribery						X		X	
Diversion of public funds	X							X	
Trading with influence								X	
Red tape									X
Costs of corruption		X							
Honesty of politicians								X	
Extent of the problem			X	X	X	X	X		
Source: Expert assessments	X	X	X	X		X	X		X
Source: Survey					X*			X**	

X \*: Survey of households; X \*\*: Survey of firms.

Based on: Kaufmann, Kraay, & Mastruzzi (2008).

The Graft index is constructed by aggregating sources using an unobserved components model. This model expresses the observed data as a linear function of unobserved corruption plus a disturbance term capturing the perception error and/or sampling variations for each source. In the construction of the index, each source is weighted to increase the precision of the estimate. The aggregation procedure that leads to the construction of this index produces more informative data about unobserved political corruption than that produced by any individual data source. According to Kaufmann et al. (2008, p. 13) this constitutes the main advantage of this index.

Since 2002 the Graft index has been produced annually, although it was initially published in 1996, 1998 and 2000. In 2008, the Graft index is available for 212 countries and is based on an average of nineteen different variables measured via the nine different sources mentioned above; this in contrast to the 154 countries and four variables that were included in the first measurement. In 1996, eighteen countries (11.6% of the total sample) were graded using only one source of information, in contrast to only eight cases (4% of the total sample) in 2008.

Criticism of the Graft index has primarily focused on methodological issues relating to the validity of the index over time, biases in the individual sources of information and the construct validity of what the terms represent. Arndt and Oman (2006, p. 61) and Knack (2006, p. 20) have pointed out that changes in the country coverage have been shown not to have any effect on the overall average of the indicator across time, because the global mean of the Graft index is always specified at zero and one standard deviation

for each period. In this regard, Kaufmann et al. (2007, p. 11) have argued that 'by setting the world average to zero in each period, the indicator is obviously not informative about trends in global averages by definition.' The idea of normalizing at zero is to measure how informative the country indicator is on the overall Graft index. To avoid misleading uses of the Graft index in cross-country comparisons, Kaufmann et al. (2007, p. 4) have suggested that scholars should take the margins of error into account in assessing the significance of differences across countries. This will lead to correct interpretations of the relative changes in the Graft index in a particular country. I follow this recommendation in my statistical analysis.

As regards changes in ranking subsequent to extending the sample, Knack (2006, p. 11) has argued that the ranking over time represents a meaningless classification because countries can change places from one year to another, either for the better or the worse, due to the inclusion of new countries in the sample but not to relevant causes. According to Kaufmann et al. this is an inconsequential objection because the effects of the inclusion of new countries in the sample depend on how different the new countries are from the 'incumbents'. They argue that 'one way to check this is to look at the mean value of our 2005 Graft index for the entrants between 1996 and 2005. The mean score of the entrants is only 0.06, which is not significantly above the world average which by construction is set equal to zero. In simple terms this means that the new countries added to the samples included some with very little corruption, and some with a lot of corruption, and so the ranks and scores of the remaining countries are not systematically affected by the addition of these sources' (Kaufmann, Kraay, & Mastruzzi, 2007, p. 4).

Objections to the sources of information have focused on two issues: the interdependence of the sources used to construct the index and the reliability of the informants used in connection with these sources. Glaeser et al. (2004) have argued that ratings produced by risk rating agencies assume that there is less political corruption in countries that are rich or enjoying recent strong economic performance. A correlation has thus been observed between political corruption and levels of development which would be explained by the 'halo effect'. Empirical evidence provided by Kaufmann et al. has demonstrated that this is a misleading interpretation. In brief, they show that

'after controlling for long-run economic performance of countries, the short-term growth that it is driving 'halo effects' is also no longer significant. Based on this we argue that the short-run growth variable is simply proxying for longer-run growth, and that the KS regressions could just as well be interpreted as picking up an entirely reasonable causal effect of good governance on long-run economic performance. Consistent with this, we show that a very careful measure of government effectiveness that KS -- likely correctly -- hold up as a model indicator untainted by 'halo effects' exhibits the same partial correlations with long- and short-run growth as do the WGI. We therefore do not find their evidence of alleged 'halo effects' to be at all compelling' (Kaufmann, Kraay, & Mastruzzi, 2006, p.16).

Another collateral problem is derived from the interdependence between the different sources of information. It is argued that risk rating agencies validate their evaluations by looking at other similar sources. The inclusion of sources that are correlated with each other has, however, been counted as beneficial. Kaufmann et al. (2007, p. 17) have claimed that 'if two data sources make correlated errors, it does not mean that we should discard them entirely from the aggregate indicator – the jointly still might well contain useful information, just not as much information as they would if they were truly independent.'

As regards the reliability of the informants, Roubaud and Razafindrakoto (2006) conducted a study to evaluate the representativeness of the experts' assessment as measures of political corruption versus households' reports. They found that political corruption indexes (the Graft index and the CPI) based on experts' assessments showed no correlation with the households' reports of this problem. According to Kaufmann et al. (2007, p. 15) this conclusion is based on an incorrect formulation of the variables measured. Households were asked whether or not they have been the victims of corruption. This abstract question can give rise to personal interpretations as to what being a victim of corruption might involve. Direct questions on involvement in bribery would reflect the problem in a more precise way. Therefore, it can be concluded that this innovative approach needs to be reviewed in order to examine its usefulness.

Finally, Thomas (2006) has noted that the index suffers from a construct validity problem. For Thomas, the dimensions measured by the different sub-indexes of the Graft index do not coincide with the definitions provided by other scholars. The lack of definitional consensus is not an issue of critical importance, since Kaufmann et al. (2007, p. 15) provide their own internal definitions. However, what appears not to be consistent is that the Graft index is defined in terms that do not match the practices that the different sources provide information about. Bearing in mind that in this thesis I

have identified five forms of political corruption, I found that the Graft index only represents two of them: bribery and trading in influence. Administrative malpractices (the diversion of public funds and red tape) are also included in the Graft index, although they should not be. Despite these differences, I agree with Kaufmann et al. (2007, p. 26) when they claim that it might be intellectually satisfying for some to wait for a perfect match between corruption theory and the proxies used to measure this phenomenon, but the wait will be a more or less endless one, and thus impractical to the point of impossibility.

### ***The Corruption Perception Index***

As has previously been mentioned, the second source of information on political corruption that I will use as an alternative in my model is the Corruption Perception Index (CPI). The CPI was developed by Dr. Johan Graf Lambsdorff, professor at the University of Passau in Germany, who has also been responsible for annually updating the data since the CPI was first used in 1995. The goal of the CPI is 'to provide data on the extent of perceptions of corruption within countries' (Lambsdorff J., 2007, p. 2). The CPI ranks countries on a scale ranging from zero to ten, with a score of zero representing very high corruption.

The first step in the construction of the CPI is the unification of the measurement scales used by each source. Initially, the original data is standardized by using the mean of the previous year's CPI. Then information is unified and countries are ranked. In the second step an index is constructed based on the matching percentiles method. According to Lambsdorff (2007, p. 7) this method is superior in combining indexes that have different distributions. This method uses only ordinal information, disregarding the cardinal information produced by the original sources. The matching percentiles method assigns the best standardized value to the country that ranks highest, and so on. Once the different sources have been standardized, a beta-transformation is required to guarantee that the resulting mean and standard deviation have the desire values. Following this second standardization, the average of these indexes is computed to determine each country's score and its standard deviation.

In 2007 the CPI combined information from fourteen different sources originating from twelve independent organizations. These organizations are: the Asian Development Bank (ADB), the African Development Bank (AFDB), the Bertelsmann Foundation (BTI), the Country Policy and Institutional Assessment by the IDA and the World Bank (CPIA), the Economist Intelligence Unit (EIU), the Freedom House (FH), the Global Insight (GI), the International Institute for Management Development (IMD), the Merchant International Group (MIG), the Political and Economic Risk Consultancy (PERC), the United Nations Economic Commission for Africa (UNECA) and the World Economic Forum (WEF). These sources are annually reviewed by the Transparency International Index Steering Committee, which is responsible for controlling the quality of the information provided by each source. It is notable that the criteria for the inclusion and exclusion of data sources are not in the public domain, and nor are the parameters used to guarantee the quality of the information.

In a detailed analysis of the sources of data employed by the CPI, it can be observed that most of them (11 of 12) make reference to the overall problem of corruption without making any distinction between its particular forms (Table 9). In four of these twelve cases, bribery is measured; while three of the twelve sources also include administrative problems that can lead to political corruption, such as the diversion of public funds, ineffective audits and excessive regulation.

**Table 9. Concepts measured in the CPI index and sources of information**

	ADB	AFDB	BTI	CPIA	EIU	FH	GI	IMD	MIG	PERC	UNECA	WEF
Bribery								X	X	X		X
Conflicts of interest	X	X		X		X						
Policies and laws diverted and biased	X	X		X		X						
Administrative problems *	X	X		X		X						
Implementation of anti-corruption initiatives **			X			X						
Extent of the problem	X	X	X		X	X	X	X	X	X	X	X
Source: Experts' assessment	X	X	X	X	X	X	X	X	X			
Source: Survey										X***	X***	X***

\* This includes: ineffective audits, excessive regulation and the diversion of resources. \*\* This includes: access of civil society to public information, the accountability of the executive, the protection of whistleblowers and media coverage on corruption. X\*\*\*: Survey with firms.Based on: Lambsdorff (2007).

Like the Graft index, the CPI has also been criticized for its methodological problems. Since both indexes share similar problems regarding the biases of the individual sources and construct validity, in this section I want to focus on two additional issues that emerge in the case of the CPI in particular: the new CPI methodology and the precision of its scores.

One of the main problems with the current version of the CPI is related to the methodology of aggregation. On the one hand, the Transparency International Index Steering Committee decided not to continue including sources that base their information on household surveys; only experts' assessments and surveys of firms are now included in the CPI. The Committee argues that the information provided by experts does not change very much over time and that it is much more reliable than that provided by household surveys, although there are no studies that support this argument. This seems to be a mistaken idea that only exacerbates the biases associated with using a single type of source information, especially when firms and experts belong to a particular 'elite' that has its own view of the problem. On the other hand, the Committee has also modified the standardization process used to aggregate the different sources. Between 1995 and 2001, it was assumed in connection with the construction of the CPI that the inclusion of new countries in the sample should not have any impact on the mean and standard deviation of a given country over time. Given this view, the starting point for the standardization was the previous year's CPI, which will lead to a situation where means remain static even though the positions of the final ranking have changed. In 2002 the same principle was retained, although there are some differences. In the new procedure, the information within each source is initially standardized as was previously the case. Then the different sources are aggregated and once again standardized, using the previous CPI score as the mean, as has already been explained. This means that each independent source, as well as the aggregate index, is standardized using the previous CPI score as a mean. Although for Transparency International, this procedure is intended to maintain the CPI at similar levels year after year; it does not provide space for improvements or for worse performances (Thompson & Shah, 2005, p. 18).

The second problem that I want to highlight is related to the precision of the scores. Due to the large standard error associated with the CPI, countries can be placed among the less corrupt and the most corrupt at the same time. For example, Søreide has pointed out that 'a country like Malta with a score of 6.8 on position 25 in the CPI of 2004, has an uncertainty band of 5.3 to 8.2; it could therefore be less corrupt than Canada in position 12 and more corrupt than Suriname on position 49' (Søreide, 2006, p. 24). Thus according to Søreide, the main difficulty associated with the ranking system used by the TI is in the meaning of the numbers assigned to each country. The CPI grades countries on an ordinal scale, which means that countries are placed one after another according to the perception that experts and firms have of the problem. Therefore, the index does not represent the amount or the size of the problem. The CPI only accounts for how the countries are placed on a list in descending order. If we consider that this order is also biased by the standardization based on the previous year's CPI score, the usefulness of the CPI is limited.

Despite the limitations associated with the Graft index and the CPI, they are nonetheless the most reliable sources of information available in relation to political corruption because they overcome the partial interpretations provided by individual sources and surveys, as was discussed above. Therefore, in the statistical model I will use the Graft index and the CPI alternately as dependent variables. In the next section, I describe the independent variables and the control variables that are employed in the statistical analysis.

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### 3.2.2. THE INDEPENDENT VARIABLES: CAMPAIGN FINANCING AND THE POLITICAL CONTEXT

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I use six independent variables and four control variables. The independent variables related to the problem of campaign financing are: the type of electoral campaign financing, the impact of legal contributions to political parties and the existence of various regulatory measures relating to electoral financing. As regards the control variables, I have selected a set of socio-political, political and economic variables which are crucial to an understanding of the context in which political corruption emerges. These variables are: the existence of democracy over the past 46 years, the

predominance of unitarism and parliamentarism over the previous two decades and the GDP per capita respectively. Below, I describe these sets of variables.

### ***Campaign financing***

With regard to electoral campaign financing, it is worth mentioning that no perfect model exists. My interest here is not in arguing that one type of financial system is better than another, but rather in demonstrating that political corruption is more likely to emerge under certain conditions.

In this study, information on electoral campaign financing is taken from the Administration and Cost Election (ACE) project - Electoral Knowledge Network. The ACE project is a joint effort for the provision of technical assistance in elections management.<sup>26</sup> The ACE project publishes information on several issues related to the electoral process. In the database published by ACE, project information is taken directly from countries' laws and regulations and it is regularly updated. In this thesis, I make particular use of data on the funding of parties and candidates.

Thanks to the detailed information available in the ACE project's database, it is possible to aggregate information on the type of electoral funding allowed in each country. In this aggregation process, I used a three-stage procedure. Firstly, I selected the questions that provide information on this issue. In Box 2, I present the four original questions that are directly related to the electoral funding process. Two of them refer to the sources of funding and the other two specify the period in which these resources can be used. Secondly, I combined the response alternatives to extract the data for the three desired categories, namely: public, private and mixed campaign financing during election periods. In this study, I classify as countries with public electoral funding those that receive direct or indirect public funding during the election period but that do not receive any form of private funding. Countries classified in the mixed electoral funding

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<sup>26</sup> The ACE project is mainly funded by the United Nations through its development and electoral assistance programs. Other members are: Elections Canada, EISA, Instituto Federal Electoral - Mexico, International Foundation for Electoral Systems (IFES), and International Institute for Democracy and Electoral Assistance (IDEA) (ACE project, 1998-2008).

category are those that receive either public or private funds during electoral periods. Countries with exclusively private electoral funding are those which do not receive any form of direct or indirect public funding. In Table 10 this classification is summarized following the numbers of the questions presented in Box 2. Thirdly, I coded the classification obtained in this way using dummy variables (1 = public funding, 0 = no public funding, and so forth).

### **Box 2. Questions on the origin of electoral financing**

1. Do political parties receive **direct/indirect public funding?**
  - 1a.** No.
  - 1b.** Direct.
  - 1c.** Indirect
  
2. If political parties receive direct/indirect public funding, **when do they receive this?**
  - 2a.** As related to the election period only.
  - 2b.** Between elections.
  - 2c.** As related to the election period and between elections.
  
3. Are political parties entitled to **private funding?**
  - 3a.** Yes.
  - 3b.** No
  
4. If political parties are entitled to private funding, **for what period?**
  - 4a.** As related to the election period only.
  - 4b.** Between elections.
  - 4c.** As related to the election period and between elections

Source: Extracted from (ACE project, 1998-2008).

**Table 10. Basis for classifying countries' electoral financing**

<b>Public financing during elections</b>	<b>Private financing during elections</b>	<b>Mixed financing during elections</b>	
1b or 1c and 2a or 2c and 3b	1a and 3a and 4a or 4c	1a and 3a and 4a or 4c	1b or 1c and 2a or 2c and 3b

Source: Author's classification.

The impact that legal campaign financing has on public policy outcomes is the second most important variable in the statistical model. Two different sources provide information on this matter: the Global Competitiveness Survey (GCS) which is carried out by the World Economic Forum (WEF) and the WBES which is conducted by the World Bank. I have selected the GCS as the source of information because it offers updated information relating to a larger sample of countries. That is, the GCS covers 131 countries in contrast to the 80 countries covered by the WBES. In addition, the GCS includes data for 2007 whereas the most recent, available WBES data are from 2000.

In the GCS, business executives are surveyed on the following question: To what extent do legal contributions to political parties have a direct influence on specific public policy outcomes? In the GCS the data collected are ordinal, with countries being ranked into seven categories, where 1 represents the presence of a very close link between donations and policy; and 7 represents little direct influence on policy. The reliability of this source is ensured by the methodology used to generate the estimations. That is, the information is collected by using the same sample structures and instruments in all participant countries.

As regards regulatory actions, I included a set of variables to test the impact that various electoral financing regulations have on promoting transparency. Once again, I used the ACE project database to obtain information on the following issues: the public disclosure of contributions received, the public disclosure of campaign expenditures, the existence of ceilings on how much money can be raised and the existence of ceilings on election expenses. Since the information in this database distinguishes between party regulations and candidate regulations, I have had to unify the two in order to provide a general approach to the country characterization. Following this procedure, I applied a dummy coding of the classification obtained. This means that I coded 1 when the regulation was observed and 0 when it was not. In Box 3 I present the final classification.

### **Box 3. Questions on regulatory provisions relating to electoral financing**

1. Public disclosure of party/candidate **contributions received**.  
**1a.** Yes. **1b.** No.
2. Public disclosure of party/candidate **campaign expenditures**.  
**2a.** Yes. **2b.** No.
3. Ceilings on **how much money a party/candidate can raise**.  
**3a.** Yes. **3b.** No.
4. Ceilings on party/candidate **election expenses**.  
**4a.** Yes. **4b.** No.

Source: Extracted from (ACE project, 1998-2008).

### ***The political context***

The set of control variables described at the beginning of this section will be taken from La Porta et al. (1999), Treisman (2000) and Gerring and Thacker (2004) whose contributions have been widely used for their statistical validity. These scholars have identified various factors that are causally related to the political corruption phenomenon on the basis of the theory of institutions.

In economic theories of institutions, considerable attention has been focused on the problem of government quality. Under the assumption that institutions bring about efficiency, scholars have studied the relationship between economic development and public sector efficiency. La Porta et al. (1999) have found that in countries with higher GDP per capita (used as a proxy of economic development) the public sector performs better, i.e. with less political corruption and less bureaucratic delays.

The existence of democracy has been used in the political theory of institutions to explain the emergence of political corruption. According to Treisman (2000, p. 434) countries that have experienced a long, uninterrupted period of democracy have less political corruption. In particular, he has established that countries that have had 46 or more years of democracy show lower levels of political corruption than countries that have been governed democratically for shorter periods. This finding partially contradicts the previous work of Alvarez et al. (1996) who argued that the existence of democracy itself was the only precondition for better government performance and less political corruption. In the model presented below I use Treisman's approach as a proxy for democracy because I consider that the reciprocity derived from electoral campaign contributions can emerge with more clarity in the context of longer periods of democracy.

Complementary data on political institutions is also used in the statistical model. In the political theory of institutions, the scholarship is divided on whether or not constitutional decentralization (fiscal, political and administrative) has contributed to mitigating core problems such as ethnic conflicts, property right problems and public administration inefficiency. In this thesis, I assume that decentralization leads to political corruption because the institutional weaknesses of the regions facilitate its

emergence due to the lack of control mechanisms or the use of wrong ones. In this sense, in the statistical model I use data on federalism and parliamentarism collected by Gerring and Thacker (2004), who have argued that decentralization leads to political corruption.

In Table 11, I present a summary of the variables that I have described above. I want to conclude this section by mentioning that after aggregating the data from the different sources, I obtained information about 83 countries, classified as follows: 26 high-income countries, 45 medium-income countries and 12 low-income countries from Africa, Asia, East Europe, Europe, Latin America, North America and South-East Asia. The names of these countries are presented in Appendix 3.

**Table 11. Variables included in the statistical analysis and their respective sources**

	Concept measured	Variable measured	Description and source	Number of observations
Dependent variable	Graft Index	<b>GRAFT-INDEX</b>	The Graft index measures perceptions of the extent to which public power is exercised for private gain. Scale ranges from -2.5 and +2.5. Higher values correspond to less political corruption. A value of 0 indicates the average of the world sample <i>Source:</i> Kaufmann et al (2008)	212 countries
	The Corruption Perception Index (CPI)	<b>CPI</b>	The CPI ranks countries in terms of the degree to which political corruption is perceived to exist among public officials and politicians. Scale ranges from 0 to 10. Higher values correspond to less political corruption <i>Source:</i> Lambsdorff (2006a)	163 countries
Independent variables	Public electoral campaign financing	<b>PUBLIC-FINANCING</b>	A dummy of whether or not the country has exclusively public electoral financing during election periods. 1=public funding, 0=otherwise <i>Source:</i> ACE project (2006)	120 countries
	Impact that legal contributions have on public policy outcomes	<b>CONTRIBUTIONS-IMPACT</b>	Average responses of surveyed business executives to the following question: To what extent do legal contributions to political parties have a direct influence on specific public policy outcomes? Scale ranges from 1 to 7. Higher values correspond to little direct influence on policy outcomes <i>Source:</i> World Economic Forum (2006)	131 countries

**Table 11. Variables included in the statistical analysis and their respective sources (contd.)**

	<b>Concept measured</b>	<b>Variable measured</b>	<b>Description and source</b>	<b>Number of observations</b>
<b>Independent variables</b>	Public disclosure of contributions received	<b>DISCLOSURE-CONTRIBUTIONS</b>	A dummy of public disclosure of party/candidate contributions received. 1=public disclosure of contributions, 0=otherwise <i>Source:</i> ACE project (2006)	120 countries
	Public disclosure of campaign expenditures	<b>DISCLOSURE-EXPENDITURES</b>	A dummy of public disclosure of party/candidate campaign expenditures. 1=public disclosure of expenditures, 0=otherwise <i>Source:</i> ACE project (2006)	120 countries
	Ceilings on how much money can be raise	<b>CEILINGS-CONTRIBUTIONSRaised</b>	A dummy of ceilings on how much money a party/candidate can raise. 1=ceilings on contributions, 0=otherwise <i>Source:</i> ACE project (2006)	120 countries
	Ceilings on election expenses	<b>CEILINGS-ELECTIONEXPENSES</b>	A dummy of ceilings on party/candidate election expenses. 1=ceilings on election expenses, 0=otherwise <i>Source:</i> ACE project (2006)	120 countries
<b>Control variables</b>	GDP per capita	<b>GDP</b>	(ln) Real GDP per capita averaged from 1970-1995 <i>Source:</i> La Porta et al (1999))	161 countries
	Democracy in all 46 years	<b>DEMOCRACY</b>	A dummy of whether or not the country has been a democracy for the whole of the past 46 years. 1=democracy in all 46 years, 0=otherwise <i>Source:</i> Treisman (2000)	99 countries
	Unitarism	<b>UNITARISM</b>	Represents the predominant institutional form over the previous two decades. The scale combines territorial government and bicameralism. 5= non-federal, 4=semi-federal, 3= federal, subtract 1 if bicameral; subtract 2 if strong bicameral. Higher scores mean more unitarism. <i>Source:</i> Gerring and Thacker (2004)	125 countries
	Parliamentarism	<b>PARLIAMENTARISM</b>	Represents the predominant institutional form over the previous two decades. Scale ranges from 1 to 3. 1=presidential, 2=semi-presidential, 3=parliamentary <i>Source:</i> Gerring and Thacker (2004)	125 countries

### 3.3. THE RESULTS

Different disciplines have approached the theoretical debate on the complex implications of electoral campaign financing; however, no empirical assessment has been made of this issue. To provide a more certain conclusion, I conducted a cross-country analysis to explore the relationship between political corruption and electoral

campaign financing, as has been mentioned above. Table 12 presents the regression models on which the analysis is based. Each cell contains three different data for each variable: the coefficient, the standard error and the p-value. A p-value below 0.5 is declared significant.

**Table 12. Regression results: Electoral financing and political corruption**

	Dependant variable: GRAFT-INDEX				Dependant variable: CPI			
	Model 1* (1)	Model 2* (2)	Model 3* (3)	Model 4* (4)	Model 1a (5)	Model 2a (6)	Model 3a (7)	Model 4a (8)
<b>CONTRIBUTIONS-IMPACT</b>		0.525 [0.073] (0.000)**	0.565 [0.076] (0.000)**	0.657 [0.071] (0.000)**		1.133 [0.166] (0.000)**	1.242 [0.168] (0.000)**	1.369 [0.158] (0.000)**
<b>PUBLIC-FINANCING</b>			-0.439 [0.242] (0.074)	-0.427 [0.219] (0.056)			-1.235 [0.539] (0.025)	-1.176 [0.501] (0.022)
<b>DISCLOSURE-CONTRIBUTIONS</b>				-0.556 [0.219] (0.013)				-0.794 [0.444] (0.078)
<b>DISCLOSURE-EXPENDITURES</b>				0.392 [0.187] (0.040)				1.006 [0.442] (0.026)
<b>CEILINGS-CONTRIBUTIONS RAISED</b>				0.449 [0.180] (0.015)				1.315 [0.380] (0.001)
<b>CEILINGS-ELECTIONEXPENSES</b>				0.391 [0.195] (0.048)				
<b>GDP</b>	0.181 [0.051] (0.001)	0.145 [0.040] (0.000)**	0.143 [0.039] (0.000)**	0.134 [0.037] (0.001)	0.355 [0.107] (0.001)	0.295 [0.086] (0.001)	0.293 [0.083] (0.001)	0.261 [0.081] (0.002)
<b>DEMOCRACY</b>	1.186 [0.195] (0.000)**	0.697 [0.167] (0.000)**	0.630 [0.168] (0.000)**	0.639 [0.156] (0.000)**	2.773 [0.429] (0.000)**	1.727 [0.373] (0.000)**	1.537 [0.373] (0.000)**	1.565 [0.352] (0.000)**
<b>UNITARISM</b>	0.092 [0.049] (0.065)	0.094 [0.038] (0.017)	0.092 [0.038] (0.018)	0.144 [0.036] (0.000)**	0.188 [0.110] (0.092)	0.187 [0.088] (0.036)	0.186 [0.085] (0.032)	0.310 [0.084] (0.001)
<b>PARLIAMENTARISM</b>	0.354 [0.085] (0.000)**	0.272 [0.068] (0.000)**	0.290 [0.067] (0.000)**	0.279 [0.062] (0.000)**	0.713 [0.189] (0.000)**	0.528 [0.153] (0.001)	0.575 [0.150] (0.000)**	0.594 [0.138] (0.000)**
<b>CONSTANT</b>	-2.399 [0.420] (0.000)**	-4.009 [0.398] (0.000)**	-4.141 [0.398] (0.000)**	-4.721 [0.382] (0.000)**	-0.630 [0.913] (0.492)	-4.234 [0.897] (0.000)**	-4.644 [0.891] (0.000)**	-5.651 [0.862] (0.000)**
<b>R<sup>2</sup> ADJUSTED</b>	0.652	0.789	0.795	0.836	0.653	0.781	0.793	0.826
<b>OBSERVATIONS</b>	83	83	83	83	83	83	83	83
<b>F</b>	39.483 (0.000)**	62.165 (0.000)**	53.896 (0.000)**	42.701 (0.000)**	39.605 (0.000)**	59.603 (0.000)**	53.289 (0.000)**	44.206 (0.000)**

Note: The table shows the coefficients for each variable with standard errors in brackets and p-value in parenthesis.

\* Estimation: weighted least squares. Weights: inverse of the squared standard error of the Graft index.

\*\* P-value < 0.0005.

In columns 1 to 4, I use the **GRAFT-INDEX** as the dependent variable. I have weighted models 1 to 4 by the inverse of the squared standard error of the **GRAFT-INDEX**. In columns 5 to 8 the dependent variable is the **CPI**. Due to the lack of availability of the standard error of the CPI, the regressions were not weighted. Since the models show a similar result in both cases, I present a general conclusion below.

Model 1 is a benchmark regression, where I introduced the three different sets of control variables. In this model, **GDP** enters with the expected sign and value as has been described by La Porta et al. (1999). This means that in countries with higher economic development there is less political corruption. Concerning the countries' exposure to **DEMOCRACY**, I confirmed, as Treisman (2000) has described, that in nations with longer and uninterrupted periods of democracy there is less political corruption. Regarding the political institutions, I found, as Gerring and Thacker (2004) have suggested that there is less political corruption in **UNITARY** and **PARLIAMENTARY** systems. After the introduction of the sets of political, socio-political and economic control variables the adjusted R<sup>2</sup> in Model 1 reaches the value of 0.652.

In columns 2 to 4, I introduced the campaign financing variables, as described above, into the model. Examined in more detail, Model 2 shows that the impact of private campaign financing (**CONTRIBUTIONS-IMPACT**) on political corruption is significant, as was expected in H1. This implies that when electoral campaign financing has a little direct influence on public policy outcomes there is less political corruption. As regards H2, Model 3 reveals that the existence of public financing (**PUBLIC-FINANCING**) increases political corruption. Therefore, the existence of combined systems of electoral funding with strict controls on the election ceilings expenditures and contributions received is a central issue to reduce political corruption.

Finally to test H3 and H4 I used two variables relating to the existence of ceilings on and public disclosure of contributions and expenditures. In Model 4 I found that **DISCLOSURE-EXPENDITURES**, **CEILINGS-CONTRIBUTIONSRAISED AND CEILINGS-ELECTIONEXPENSES** have impact on reducing political corruption in the countries where they exist. However, the public disclosure of the contributions received (**DISCLOSURE-CONTRIBUTIONS**) is the only formal regulation that does not contribute to mitigating political corruption. Why does this paradox exist? In chapter 2, I discussed that the altruistic character of the gift is extinguished when gifts are not longer

anonymous because when the identity of the gift-giver is revealed, the receiver feels obligated to reciprocate (Laidlaw, 2000, p. 623). This explains why in the case of the electoral campaign contributions the disclosure of the entity of the electoral financial contributor brings about problems of political corruption or in words of Sahlins (1965, p. 90) problems of generalized reciprocity. Therefore the core of the problem is the exchange process and not the gift itself as has been suggested by Sahlins and Laidlaw.

As I have stated, I also tested these models using the CPI index. In columns 5 to 8 of Table 12 , it can be seen that the results of the four models based on the CPI dependent variable show similar patterns and values. In the final model (Model 4a) presented in column 8 the adjusted R<sup>2</sup> reaches 0.826, which is similar to the value obtained in Model 4 (0.836) when the Graft index was employed as the dependent variable (column 4).

The standard regression diagnostics were applied to the models employing both dependent variables and revealed no evidence of unusual patterns in the error term or any strong correlations among the independent variables. It is worth mentioning that weighting the models 1 to 4 did not produce any relevant change on the value and sign of the estimated coefficients.

Based on this empirical evidence, it can be argued that electoral campaign financing is used by private donors as a strategy to put pressure on and demand certain benefits from power-holders (Hoddes, 2004, p. 16; Blechinger, 2001, p. 6).<sup>27</sup> One possible explanation is that campaign financing is used as a mechanism to eliminate public sector inefficiency (Denzau & Munger, 1986, p. 89), to mitigate severe regulations (Gordon & Hafer, 2005, p. 258), or to attempt to ensure that contributors' interests are represented over a longer period of time (Stratmann, 1995, p. 127). This is not surprising, since historically, political gifts have been instruments for bribery because they imply the demand of reciprocities (Noonan, 1984, p. 40). Consequently, it can be said that campaign contributions, as a modern version of political gifts, are used by benefactors to demand reciprocities from political leaders. In this respect Ashworth (2006, p. 55) has argued that a contribution-based campaign finance system gives incumbents incentives

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<sup>27</sup> Alternatively, firms can use lobbying which according to Campos and Giovannoni (2006) appears to be a much more efficient instrument than bribery. Nonetheless, the relationship between lobbying and electoral campaign financing has not yet been studied.

to distort the policy in directions favoured by the donors. This means that electoral campaign financing initiates and speeds up subsequent misconduct (for example: embezzlement, nepotism and conflicts of interest) in the process of reciprocating campaign supporters (Argandoña, 2002). Thus it is evident that electoral campaign financing can constitute a practice of political corruption and as such an alternative method of bribery.

If private campaign financing fosters political corruption, there is no space to consider whether electoral funding constitutes an example of imperfect gifts as has been claimed by political economists (Rose-Ackerman, 1999, p. 92). On the contrary, the findings presented in the statistical model provide support for the findings of recent historical studies (Noonan, 1984, p. 40; Groebner, 2002, p. 17) which have claimed that the exchange of political gifts (in this case campaign financing) with public-office holders clearly involves an attempt to influence decisions, and as such should be counted as political corruption. The empirical evidence presented here, also coincides with a number of contemporary studies on the electoral process in Africa where it has been demonstrated that 'business owners donate to governing parties because they can deliver prompt returns' (Salih & Nordlund, 2007, p. 118).<sup>28</sup> In east European countries a similar situation has been observed by Stajarová et al. (2007), and in South Asia it has been reported that the management of electoral funds is the most opaque area of party funding (Suri, 2007, p. 134).

Although campaign financing represents a specific type of political corruption, it is also paradoxical that this exchange takes part in the framework of democratic elections. However, it is worth emphasising that the problem does not reside in the democratic process, but in the origins of the money used to finance elections. Holding elections funded by private sources produces the problem of a lack of transparency, as has been demonstrated in this thesis. Thus, the main challenge for democracy is to establish a model for party finance that minimizes political corruption during elections and the policy process and at the same time guarantees the needs for party building,

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<sup>28</sup> Sahlin and Nordlund (2007, p. 118) have also stated that when business owners 'decide to finance an opposition party, nine times out of ten they are political entrepreneurs seeking to make money directly for politics by owning a party [...] and waiting for the day when they can buy enough votes to put the party in power.'

competition and campaigning (Williams R. , 2000, p. 199; De la Calle, 2004, p. 188; Poire, 2006, p. 3; Johnston, 2005, p. 15).

#### 4. CONCLUSIONS

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In this research political corruption has been studied beyond the traditional rent-seeking approach that focuses on bribery. Different methodologies have been used here. Firstly, the widely used definition of political corruption has been reviewed by applying principal-agent theory to a broad range of corruption practices. Secondly, the relationship between campaign financing and political corruption has been corroborated through a cross-country statistical analysis. Thirdly, an exploration of the motives for making campaign contributions has been introduced and extended based on a review of gift-exchange theories from economic anthropology.

As regards the definition of political corruption, the theoretical approach proposed by Gambetta (2002) for identifying corruption practices based on the principal-agent model with two mediators has provided the basis for identifying the practices that can be counted as manifestations of political corruption. Nearly 60 different practices labelled as 'corruption' by different scholars were tested using the characterization proposed by Gambetta. Only eight of those practices fulfil the requirements. Therefore, it can be claimed that the abuse of power denoted by political corruption practices is characterized by the breach of trust on the part of the power-holder which leads him/her to adopt different illegal behaviours, namely: bribery, embezzlement, trading in influence, conflicts of interest, vote-buying, nepotism and corrupt campaign contributions. This implies that political corruption does not only consist in bribery as has usually been argued by political economists.

In the case of these eight political corruption practices, the political machinery used by leaders and parties during elections acts as an extra mediator between the leaders seeking office and the private individuals seeking preferential benefits. It is here that political corruption starts to emerge. The wider the political machinery is, the wider the contacts to support the decisions of the local leaders to compensate their supporters and contributors have to be. For Piattoni (2001) this type of political practice is nothing other than one strategy among others that leaders have used in modern times to achieve power.

In the particular case of campaign contributions, there is an abundance of theoretical discussion about the complexities of this practice (Williams R., 2000; Nassmacher, 2003; Hoddes, 2004), but little empirical evidence has been provided. For this reason I have myself conducted an empirical study. A cross-country analysis has been conducted based on data from 83 countries. The statistical analysis revealed that there is a strong correlation between campaign financing and political corruption. However, it is still unclear what the motives of contributors are for giving donations at election times. This seems to be self evident when, for example, interest groups direct their campaign contributions to those who can deliver with certainty, as has been argued by Grossman and Helpman (1996). This implies that political corruption originates not only from administrative practices, as has been traditionally argued, but also from political activities associated with office-seeking, as has been stated by Kuniková and Rose-Ackerman (2005). Nonetheless, this has been a subject of controversy among scholars with some claiming that small contributors (Ansobahere, de Figueiredo, & Snyder, 2003; Campate, 2006) are politically oriented and that they therefore do not expect reciprocities, while others (Keefer & Vlaicu, 2005) argue that campaign contributors are always embedded in a *quid pro quo* relationship.

What makes it difficult to distinguish campaign financing from other forms of illicit forms of political corruption is the delayed reciprocity that is used to compensate the giver (Titmus, 1970). Since scholars have argued that campaign financing is driven by consumption motives rather than by philanthropic intentions, it is possible to state that it is in the hidden intentions of givers that this practice of political corruption is initiated (Caplow, 1984). This argument is in line with most of the historical studies in which scholars have revealed that the exchange of gifts with power holders has since ancient times been a common practice in the conduct of politics (Noonan, 1984) (Groebner, 2002). To give, to receive and to reciprocate political gifts is something that is widely accepted among politicians and citizens because there are no restrictions that prevent receivers from accepting this kind of benefit. It is widely known in society that political gifts should be reciprocated because there are no free gifts in politics (Gouldner, 1960; Schmidtz, 1993). Therefore, when citizens enter into the exchange of reciprocities they are aware of the possible further implications that such an exchange has. Citizens tend

to use political leaders to achieve their private interests by giving them money in the form of campaign contributions (Hellman, Jones, & Kaufmann, 2000).

The fact that campaign financing is exchanged for particular benefits is not the only thing that creates controversy around this issue. Usually, campaign financing is regulated by governments and is, consequently, subject to surveillance by electoral authorities and citizens in order to guarantee the transparency of the entire process. However, the cross-country analysis revealed that the effectiveness of these control measures is limited. The existence of these instruments provides a legal framework, but in reality parties and leaders evade laws and regulations. This reveals the complexity of campaign financing. Political funding is not only a problem of restricting certain sources of money, but also of keeping expenditures within the limits allowed and respecting the law. Since elections are the basis of the democratic process, the perversion of one of the key electoral instruments weakens the legitimacy of democracies and transforms the electoral process into a criminal one.

Although campaign financing represents a specific type of political corruption, it is also paradoxical that this exchange takes part in the framework of democratic elections. However, it is worth emphasising that the problem does not reside in the democratic process, but in the origins of the money used to finance elections. Holding elections funded by private sources produces the problem of a lack of transparency, as has been demonstrated in this thesis. Thus, the main challenge for democracy is to establish a model for party finance that minimizes political corruption during elections and the policy process and at the same time guarantees the needs for party building, competition and campaigning (Williams R., 2000, p. 199; De la Calle, 2004, p. 188; Poire, 2006, p. 3; Johnston, 2005, p. 15).

### ***Issues to be explore in the second stage***

Besides the efforts made here to demonstrate the relationship between campaign financing and political corruption, it is still not clear what the motives of contributors are for making donations at election times. Following Berking's (1999) recommendation

to avoid biases and prejudices while exploring the foundations of gift exchange, I propose to study the following issues by means of a case study.

***The parties involved and their roles.*** It is not only the contributors and the political candidates that are implicated in the act of giving and receiving campaign financing. For this reason, it is important to find out which parties are involved and what their profiles and roles are in the process of exchange. Some of the actors preliminarily identified are: political leaders, campaign treasures, local trading associations, and state contractors. Since the focus in this research is on campaign funders, it is important to know the companies' ideological alignment with political parties and political leaders. In addition, it will be essential to know the companies' internal policies for giving campaign financing and for participating in politics, the numbers of private and state customers, the number of former state-officials currently hired and the number of state officials on the board of directors. This characterization will provide evidence of the organizations' commercial links, and of employees' personal contacts, intended to obtain preferential treatment from government officials.

***The objects exchanged and the process of exchange.*** One of the main concerns in this research is to identify what is given and how the exchange takes place between political leaders and campaign funders. In particular three types of benefits will be explored: contract awards, preferential laws and regulations, and job appointments. For each of these benefits, a map of the process of exchange will be constructed in which the roles and activities of the involved parties will be presented. This implies that it will be necessary to simultaneously explore the objects exchanged and the particular process in which that exchange takes place. On the one hand, the objects given to the leaders will be identified together with the alternative methods used to achieve that exchange. On the other hand, a similar analysis will be conducted in the case of the reciprocal benefits. A map of possible relations will then be produced. I believe that a double relationship map can contribute to clarifying the routes employed by contributors and political leaders in each case.

***The motives of exchange.*** The political and economic reasons and interests that companies argue are behind the exchange of campaign financing will be explored in five

particular situations: firstly, when the contribution is given to only one candidate; secondly, when the contribution is given to different candidates competing for the same position; thirdly, when the contribution is given to support different candidates competing for different political positions; fourthly, when the support is given to a single party; and fifthly, when contributions are given to different political parties. These variables can contribute to distinguishing the corrupt behaviour of certain donors from others who provide altruistic support.

***The rules of the exchange.*** Besides the legal constraints, I expect to identify implicit agreements and cultural beliefs that encourage the exchange of campaign financing. Issues regarding preferential treatment or benefits will be identified. For example: inclusion in closed tender lists, nominations to official posts, drafts of particular regulations. The purpose of this specification is to clarify the real intentions that contributors have when giving electoral campaign financing.

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## APPENDIXES

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### Appendix 1. Gifts regulation for lobbyists in the US

	AL	AK	AA	AR	CA	CO	CT	DE	FL	GA	HI	ID	IL	IN	IA	KS	KE	LA	ME	MD	MA	MI	MN	MS	MO	
No gratuity or gift	Red		Red	Red		Red	Red	Red	Red		Red	Red	Red		Red		Red	Red	Red							
Gift received from any relative					Green				Green	Green	Green	Green														
Wedding presents or birthdays					Green	Green					Green		Green		Green											
Any inheritance					Green						Green		Green		Green				Green			Green				
Gifts of not more than US\$10/year						Red																				
Gifts of not more than US\$25																									Red	
Gifts of not more than US\$40																										
Gifts of not more than US\$50																			Green							
Gifts of not more than US\$75																			Green							
Seasonal gifts of not more than US\$100	Green				Green			Green				Red								Green						
Annual gifts of not more than US\$250	Green	Red			Red			Red																		
Annual gifts of not more than US\$300																								Green		
Annual gifts of not more than US\$500																										
Food and beverages for immediate consumption		Green	Green	Green	Green		Green	Green	Green		Green	Green	Green	Green		Green	Green									
Campaign contributions	Green			Green				Green			Green			Green	Green											
Commercial loans	Red							Green			Green															
Travel and lodging expenses on official trips		Green	Green				Green																			
Expenses for event to which all members are invited				Green					Green																	
Tickets and hospitality at events		Green	Green				Green	Green										Green		Green		Green				
Gifts of insignificant value							Green												Green					Green		
Gifts which are returned to the donor							Green												Green							
Intra and inter governmental gifts							Red												Green		Green					
Promotional items						Green													Green							
Informational material								Green											Green					Green		Green
Discounts available to public								Green				Green							Green							

### Appendix 1. Gifts regulation for lobbyists in the US (Contd.)

	AL	AK	AA	AR	CA	CO	CT	DE	FL	GA	HI	ID	IL	IN	IA	KS	KE	LA	ME	MD	MA	MI	MN	MS	MO
Educational materials																									
Registration fee for educational seminars																									
A subscription to a news publication																									
Prescription drugs or similar items																									
 A contract																									
A work of art, antique or collectible;																									
A stock, bond, note or other investment																									
An automobile/other means of transp.																									
Real estate																									
A promise or offer of employment																									
Pension and other benefits																									
A gift of legal services																									
Use of a public facility for a private purpose																									
 An honorary degree																									
Volunteer services not paid																									
Plaques																									
A non pecuniary award																									
An award in recognition of public services																									
Honorary membership in an organization																									

AL: Alabama; AK: Alaska; AA: Arizona; AR: Arkansas; CA: California; CO: Colorado; CT: Connecticut; DE: Delaware; FL: Florida; GA: Georgia; HI: Hawaii; ID: Idaho; IL: Illinois; IA: Iowa;

KS: Kansas; KE: Kentucky; LA: Louisiana; MA: Maine; MD: Maryland; MA: Massachusetts; MI: Michigan; MN: Minnesota; MS: Mississippi; MO: Missouri.

Note: The red color means there is a gift restriction, while the green color means a gift exception.

Source: Author classification based on National Conference of State Legislatures (2006).

## **Appendix 1. Gifts regulation for lobbyists in the US (Contd.)**

### Appendix 1. Gifts regulation for lobbyists in the US (Contd.)

	MT	NE	NV	NH	NJ	NM	NY	NC	ND	OH	OK	OR	PA	RI	SC	SD	TN	TX	UT	VT	VA	WA	WV	WI	WY
Educational materials																									
Registration fee for educational seminars																									
A subscription to a news publication																									
Prescription drugs or similar items																									
 A contract																									
A work of art, antique or collectible;																									
A stock, bond, note or other investment																									
An automobile/other means of transp.																									
Real estate																									
A promise or offer of employment																									
Pension and other benefits																									
A gift of legal services																									
Use of a public facility for a private purpose																									
 An honorary degree																									
Volunteer services not paid																									
Plaques																									
A non pecuniary award																									
An award in recognition of public services																									
Honorary membership in an organization																									

MT: Montana; NE: Nebraska; NV: Nevada; NH: New Hampshire; NM: New Mexico; NY: New York; NC: North Carolina; ND: North Dakota; OH: Ohio; OK: Oklahoma; OR: Oregon; PA:

Pennsylvania; RI: Rhode Island; SC: South Carolina; TN: Tennessee; TX: Texas; UT: Utah; VT: Vermont; WA: Washington; WV: West Virginia; WI: Wisconsin; WY: Wyoming.

Note: The red color means there is a gift restriction, while the green color means a gift exception.

Source: Author classification based on National Conference of State Legislatures (2006).

**Appendix 2. Campaign contributions by top donors in the USA elections of 2004 and 2006**

	<b>Contributor - 2006</b>	<b>Amount (millions dollars)</b>	<b>To DMS</b>	<b>To RBS</b>		<b>Contributor - 2004</b>	<b>Amount (millions dollars)</b>	<b>To DMS</b>	<b>To RBS</b>
1	ActBlue	\$4,7	100%	0%		Goldman Sachs	\$6,5	62%	38%
2	National Assn of Realtors	\$3,7	49%	51%		National Assn of Realtors	\$3,8	48%	52%
3	EMILY's List	\$3,5	100%	0%		Microsoft Corp	\$3,5	62%	37%
4	Goldman Sachs	\$3,5	64%	36%		Time Warner	\$3,4	81%	19%
5	Democratic Congressional Campaign Cmte	\$3,1	100%	0%		Morgan Stanley	\$3,3	41%	59%
6	National Beer Wholesalers Assn	\$2,9	31%	69%		EMILY's List	\$3,2	100%	0%
7	Club for Growth	\$2,9	4%	96%		JP Morgan Chase & Co	\$3,1	53%	48%
8	National Assn of Home Builders	\$2,9	26%	73%		Citigroup Inc	\$2,8	51%	49%
9	Intl Brotherhood of Electrical Workers	\$2,8	98%	3%		Laborers Union	\$2,7	87%	14%
10	National Auto Dealers Assn	\$2,8	30%	70%		Bank of America	\$2,7	47%	53%
11	American Bankers Assn	\$2,7	36%	64%		National Auto Dealers Assn	\$2,6	27%	73%
12	Operating Engineers Union	\$2,7	78%	21%		UBS Americas	\$2,4	39%	59%
13	Laborers Union	\$2,6	85%	15%		Intl Brotherhood of Electrical Workers	\$2,4	97%	4%
14	AT&T Inc	\$2,6	34%	66%		SBC Communications	\$2,4	35%	65%
15	American Assn for Justice	\$2,5	96%	4%		United Parcel Service	\$2,3	28%	72%
16	General Electric	\$2,5	41%	58%		Merrill Lynch	\$2,3	30%	69%
17	Credit Union National Assn	\$2,4	45%	54%		National Beer Wholesalers Assn	\$2,3	24%	75%
18	Citigroup Inc	\$2,4	54%	44%		University of California	\$2,2	91%	9%
19	United Parcel Service	\$2,3	33%	67%		General Electric	\$2,2	47%	53%
20	Carpenters & Joiners Union	\$2,2	74%	25%		Assn of Trial Lawyers of America	\$2,2	93%	7%
92	Baron & Budd	\$1,1	98%	1%		Harvard University	\$1,1	96%	4%

DMS: Democrats. RPS: Republicans.

Source: Open Secrets (2006).

### **Appendix 3. List of countries included in the final sample**

**High income countries (26):** Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Ireland, Israel, Italy, Japan, Luxemburg, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, UK, USA.

**Medium income countries (45):** Argentina, Bolivia, Botswana, Brazil, Bulgaria, Chile, Colombia, Costa Rica, Czech Republic, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Guatemala, Haiti, Honduras, Hungary, Indonesia, Jamaica, Jordan, Latvia, Malaysia, Mauritius, Mexico, Morocco, Nicaragua, Panama, Paraguay, Peru, Philippines, Poland, Romania, Russia, Slovakia, South Africa, Sri Lanka, Tanzania, Thailand, Trinidad and Tobago, Tunisia, Turkey, Ukraine, Uruguay, Venezuela.

**Low income countries (12):** Bangladesh, Cameroon, Ghana, India, Kenya, Malawi, Nigeria, Pakistan, Senegal, Uganda, Zambia, Zimbabwe.